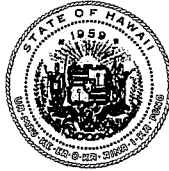


DAVID Y. IGE
GOVERNOR



STATE OF HAWAII
PUBLIC UTILITIES COMMISSION
465 S. KING STREET, #103
HONOLULU, HAWAII 96813

RANDALL Y. IWASE
CHAIR

MICHAEL E. CHAMPLEY
COMMISSIONER

LORRAINE H. AKIBA
COMMISSIONER

Telephone: (808) 586-2020
Facsimile: (808) 586-2066

web site: puc.hawaii.gov
e-mail: Hawaii.PUC@hawaii.gov

July 6, 2015

The Honorable Ronald D. Kouchi
President of the Senate
State Capitol, Room 409
415 South Beretania Street
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki
Speaker of the House
State Capitol, Room 431
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Docket No. 2013-0375, Kona Water Service Company, Inc. – Application for a General Rate Increase and for Approval of Revisions to its Tariff

Dear Senate President Kouchi and House Speaker Souki:

The Public Utilities Commission ("Commission") respectfully submits this report in accordance with Hawaii Revised Statutes ("HRS") § 269-16(d). With respect to a public utility's completed rate case application filed with the Commission, HRS § 269-16(d) states, in relevant part:

- (d) The commission shall make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application; provided that in carrying out this mandate, the commission shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes. If a decision is rendered after the nine-month period, the commission shall report in writing the reasons therefor to the legislature within thirty days after rendering the decision.

... if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section, the commission, within one month after the expiration of the nine-month period, shall render an interim

The Honorable Ronald D. Kouchi
The Honorable Joseph M. Souki
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decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the evidentiary record before it, believes the public utility is probably entitled. The commission may postpone its interim rate decision for thirty days if the commission considers the evidentiary hearings incomplete

The nine-month period in this subsection shall begin only after a completed application has been filed with the commission and a copy served on the consumer advocate

The Parties in this rate case proceeding are Kona Water Service Company, Inc. ("KWSC") and the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"), an ex officio party, pursuant to HRS § 269-51 and Hawaii Administrative Rules § 6-61-62(a).

KWSC is a public utility that provides water and wastewater services to the master planned community known as the Kukio Beach Club in North Kona, Hawaii. KWSC also serves the adjacent residential development known as Manini'owali and Kua Bay Beach Park, and has authority to provide untreated water to the Kukio Golf & Beach Club and the West Hawaii Veteran's Cemetery. KWSC is also authorized to provide potable water services to the planned four-lot Kukio Mauka subdivision and the adjacent five-lot Stroud subdivision.

By way of procedural background:

1. On August 29, 2014, KWSC filed its completed application for a general rate increase and approval of revisions to its tariff, based on a July 1, 2014, through June 30, 2015 test year ("Test Year").
2. On March 17, 2015, the Consumer Advocate filed its direct testimonies and exhibits.
3. On April 6, 2015, KWSC filed its rebuttal testimonies and exhibits.
4. On April 21, 2015, the commission filed Stipulated Prehearing Order No. 32797, which set forth deadlines for the remaining procedural steps in this proceeding, including the submission of a settlement agreement, if any, by May 4, 2015.

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5. On May 4, 2015, the Parties submitted a joint letter to the Commission in which they stated that they had reached a partial settlement, but that several outstanding issues remained.¹ The Parties submitted a proposed modified briefing schedule which included the submission of additional briefing on the outstanding issues. The Parties proposed including a May 21, 2015, deadline for the Parties to submit their respective statements of position on the outstanding issues, and a June 8, 2015, deadline for the Parties to submit their statements of probable entitlement.
6. On May 15, 2015, the Commission filed Order No. 32852, which adopted the Parties' proposed modified procedural schedule, with some minor changes. Pursuant to Order No. 32852, the Parties' statements of position on outstanding issues were due by May 21, 2015, and their statements of probable entitlement were due by May 28, 2015. In accordance with HRS § 269-16(d), the commission set June 29, 2015, as the deadline by which it would issue an interim decision and order.
7. On May 21, 2015, the Parties submitted their respective statements of position on the outstanding issues.
8. On May 28, 2015, the Parties submitted a joint statement of probable entitlement.
9. On June 29, 2015, the Commission filed its final decision and order, Decision and Order No. 32944 ("Order No. 32944"), in lieu of an interim decision and order. Pursuant to Order No. 32944, the Commission approved an increase of \$2,101,024, or approximately 58.8% over revenues at present rates for KWSC, based on a total Test Year revenue requirement of \$5,672,618. In so doing, the Commission approved the Parties' Partial Stipulation and rendered findings and conclusions regarding the outstanding issues.

A copy of Order No. 32944 is enclosed for your information.

¹See Stipulation of the Parties for Partial Settlement ("Partial Stipulation"), filed May 4, 2015.

The Honorable Ronald D. Kouchi
The Honorable Joseph M. Souki
July 6, 2015
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The nine-month deadline for the Commission to issue its final decision and order was May 29, 2015, or, at a minimum, its interim decision and order, if any, by June 29, 2015, pursuant to HRS § 269-16(d).²

At the request of the Parties, the Commission agreed to modify the proceeding's procedural schedule to incorporate new submission deadlines beyond the May 4, 2015, settlement agreement deadline, to permit additional briefing on the outstanding issues. This effectively: (1) increased the amount of material and arguments for the Commission to review; and (2) decreased the amount of time the Commission had to analyze the evidentiary record and draft its decision and order under the statutory deadlines.

Despite these scheduling modifications, the Commission was able to issue the enclosed final Decision and Order, in lieu of an interim decision and order, by the June 29, 2015, interim decision and order deadline. Such action, in effect, rendered moot the issuance of an interim decision and order by June 29, 2015.

In summary, the late modifications to the procedural schedule, requested by the Parties so that the outstanding issues could be fully addressed, made it impracticable to issue a final decision and order by the statutory May 29, 2015, deadline. Notably, the requested deadline for the Parties' statements of position on the outstanding issues was May 21, 2015, only eight days from the May 29, 2015, final decision and order deadline.

As discussed in the enclosed Order No. 32944, the outstanding issues that were the subject of the supplemental briefing directly affected critical elements of KWSC's application, including KWSC's Test Year expenses and rate base. These issues, in turn, directly impacted both KWSC and the ratepayers within its service area. Accordingly, it was important that the Commission have a full opportunity to review the arguments and evidence related to these outstanding issues.

Despite these scheduling difficulties, the Commission strove to complete its final Decision and Order as quickly as possible, and was able to issue Order No. 32944 by the interim decision and order deadline of June 29, 2015. Accordingly, the Parties have not suffered from any delay in the Commission's ruling; rather, they have received a final decision and order in lieu of the interim decision and order that was expected.

²See Order No. 32852, Modifying the Stipulated Regulatory Schedule, filed May 15, 2015.

The Honorable Ronald D. Kouchi
The Honorable Joseph M. Souki
July 6, 2015
Page 5

Thank you for the opportunity to submit this report. Should have any questions regarding this matter, please contact me at 586-2020 or Mark Kaetsu, Commission Counsel, at 586-2040.

Sincerely,

A handwritten signature in black ink, appearing to read 'Randall Y. Iwase', followed by a long horizontal line.

Randall Y. Iwase
Chair

RYI:sr

Enclosure

c: Jon S. Itomura, Esq./Lane H. Tsuchiyama, Esq. (w/o enclosure)
J. Douglas Ing, Esq./Pamela J. Larson, Esq./David Y. Nakashima, Esq.
(w/o enclosure)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
KONA WATER SERVICE COMPANY, INC.)
For A General Rate Increase and for)
Approval of Revisions to its Tariff)

DOCKET NO. 2013-0375

DECISION AND ORDER NO. 32944

FILED
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PUBLIC UTILITIES
COMMISSION

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
KONA WATER SERVICE COMPANY, INC.) Docket No. 2013-0375.
For A General Rate Increase and for) Decision and Order No. **32944**
Approval of Revisions to its Tariff)
_____)

DECISION AND ORDER

By this Decision and Order ("Order"), the Public Utilities Commission ("commission") approves an increase of \$2,101,024, or approximately 58.83%, over revenues at present rates (combined operations)¹ for KONA WATER SERVICE COMPANY, INC. ("KWSC"),² based on a total revenue requirement of \$5,672,618 for the July 1, 2014 through June 30, 2015 test year ("Test Year").³

¹Combined operations consist of water operations and sewer operations.

²The Parties are KWSC and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62. On January 22, 2015, KUKI'O GOLF AND BEACH CLUB, INC. and KUKI'O COMMUNITY ASSOCIATION, INC. (collectively, the "Kukio Entities") filed a motion to intervene with the commission. By Order No. 32702, filed March 11, 2015 ("Order No. 32702"), the commission denied the Kukio Entities' motion.

³On June 23, 2014, KWSC filed a Motion to Waive Test Year Requirement, in which it requested permission to utilize a mid-year

Specifically, the commission approves: (1) a revenue increase of \$1,221,552, or approximately 45.83%, over revenues at present rates for water operations, based on a water operations revenue requirement of \$3,886,701; and (2) a revenue increase of \$879,472, or approximately 97.02%, over revenues at present rates for sewer operations, based on a sewer operations revenue requirement of \$1,785,917.⁴

In so doing, the commission, also approves the Parties' Partial Stipulation ("Partial Stipulation"), filed May 4, 2015.⁵

This proceeding represents KWSC's first increase in its utility rates and charges since February of 2008, more than seven years ago, in Docket No. 2007-0198.⁶ Furthermore, the commission observes that this is KWSC's first proceeding filed on its own behalf to increase its rates since its acquisition of KUC in 2008 in Docket No. 2008-0109. Under these circumstances, the increase in revenues approved by the commission in this Order

2014-2015 test year in place of the calendar 2015 test year as required under HAR § 6-61-87(4). By Order No. 32452, filed November 13, 2014, the commission waived the requirement to utilize the 2015 calendar year ("Order No. 32452").

⁴See Exhibits A - C, attached to this Order.

⁵"Partial Stipulation of the Parties for Partial Settlement; Exhibits A and B; and Certificate of Service," filed May 4, 2015.

⁶KWSC's present rates were set by its predecessor, KUKIO UTILITY COMPANY ("KUC"), in Docket No. 2007-0198. The rates were approved by Decision and Order No. 24016, filed February 6, 2008.

provides KWSC with the opportunity to recover its normalized,
reasonable utility expenses and to earn a fair return on its
average rate base balance, consistent with the ratepayer's
attendant benefits of continuing to receive utility services at
just and reasonable rates.

The commission issues this Order in accordance with
HRS § 269-16(d). The commission's issuance of this Order, in turn,
renders moot the issuance of an interim decision and order by
June 29, 2015.

I.

Background

A.

KWSC

KWSC is a public utility that provides water and sewer⁷
services to a master planned community known as the Kukio Beach
Club in North Kona, an adjacent residential development known
as Manini'owali, and the Kua Bay Beach Park (aka the Kekaha Kai
State Park).⁸ KWSC also has authority to provide untreated bulk

⁷The Parties use the terms "sewer" and "wastewater"
interchangeably throughout the pleadings filed in this docket.
For the sake of clarity and consistency, the commission
will exclusively use the term "sewer" to refer to
KWSC's sewer/wastewater operations.

⁸"Application; Exhibits KWSC Water 1 through 12;
Exhibits KWSC Sewer 1 through 12; Exhibits KWSC-T-100 through

water to: (1) the Kukio Golf & Beach Club for irrigation purposes on an interruptible "as is/where is" basis (subordinate to potable water needs; and (2) the West Hawaii Veteran's Cemetery.⁹ KWSC is also authorized to provide potable water service only (no sewer service) to the planned Kukio Mauka subdivision and adjacent planned Stroud subdivision.¹⁰

KWSC is wholly owned by Hawaii Water Service Company, Inc. ("HWSC"), a public utility which holds a CPCN to provide utility services in various service areas within the State.¹¹ On the island of Maui, HWSC provides: (1) potable water service within its Ka'anapali service area; and (2) sewer collection and treatment services within its Pukalani service area.¹² On the

KWSC-T-603; Verification; and Certificate of Service," filed August 29, 2014; confidential Exhibit KWSC-T-201, filed August 29, 2014 (collectively, the "Application") at 2-3. The Application states: "In addition to the Kukio Beach Club, **KUC** provides water and sewer services to an adjacent residential development known as Manini'owali." Application at 3 (emphasis added). The commission notes that KWSC acquired the assets of (KUC) in Docket No. 2008-0109, pursuant to the Decision and Order filed December 1, 2008 ("KUC Acquisition Order"). As KWSC, not KUC, now provides services to this area, the commission assumes that the Application intended to state that KSWC "provides water and services to . . . Manini'owali."

⁹Application at 3.

¹⁰Application at 3.

¹¹Application at 3-4.

¹²Application at 3. The commission notes that KWSC erroneously referred to Waikoloa Resort Utilities, Inc., as doing

island of Hawaii, in addition to wholly owning KWSC, HWSC owns all of the stock of three additional public utilities: (1) Waikoloa Sanitary Sewer Company, dba West Hawaii Sewer Company ("WHSC"); (2) Waikoloa Water Co., Inc., dba West Hawaii Water Company ("WHWC"); and (3) Waikoloa Resort Utilities, Inc., dba West Hawaii Utility Company ("WHUC").¹³

In addition, HWSC manages HWS Utility Services, LLC ("HWSUS"), a Hawaii limited liability company, which acquired the assets of Island Utility Services, Inc., a non-regulated company that operated and managed a number of Hawaii public utilities, including KUC, through a contract for its services.¹⁴

HWSC, in turn, is a wholly owned subsidiary of California Water Service Group ("CWSG"), a holding company incorporated in Delaware.¹⁵ Besides HWSC, CWSG's operating subsidiaries include California Water Service Company (water service), New Mexico Water Service Company (water and sewer services), Washington Water Service Company (water and sewer services), CWS Utility Services,

business as "Waikoloa Utility Company," instead of "West Hawaii Utility Company." See Docket No. 2011-0331.

¹³Application at 3.

¹⁴Application at 4.

¹⁵Application at 4.

a non-regulated subsidiary, and HWSUS, a non-regulated subsidiary.¹⁶

B.

Application

On November 13, 2014, in Order No. 32452, the commission granted KWSC's motion to waive the requirement to use the 2015 calendar test year. As a result, the commission authorized KWSC to utilize the mid-year 2014-2015 Test Year in its Application for a general rate increase.

On August 29, 2014, KWSC filed its Application requesting that the commission approve the following increases in KWSC's revenues: (1) \$1,974,561 for water service (i.e., an increase of approximately 72.00% over revenues at present rates); and (2) \$1,362,076 for sewer service (i.e., an increase of approximately 155.34% over revenues at present rates).¹⁷ In effect, KWSC seeks a total net revenue increase of \$3,336,637 for its combined water and sewer operations.¹⁸

Specifically, KWSC proposes to:

1. Increase its water meter charge (the monthly charge based on meter size) and water consumption charge (the monthly

¹⁶Application at 4.

¹⁷Application at 5.

¹⁸Application at 4.

water usage charge that is assessed per 1,000 gallons ("TG") of water) by a total increase of 72% for the water meter charge and 90.99% for the water consumption charge;¹⁹

2. Increase its sewer stand-by charges (the monthly charge for residential dwelling units and the monthly charge per connection for commercial establishments) and sewer quantity charge (the consumption charge that is assessed per TG of domestic water consumption), by a total increase of 155.34% for the sewer stand-by charge and 161.38% for the sewer quantity charge.²⁰

3. Replace the existing Power Cost Adjustment Factor ("PCAF") for its water and sewer operations with a Power Cost Charge ("PCC") that would include all electrical costs and would be shown as a separate line item on the customer's bill.²¹ KWSC states that the proposed PCC will meet the requirements of HRS § 269-16(g) and describes the proposed PCC as follows:²²

¹⁹Application at 6-7.

²⁰Application at 7.

²¹Application at 13-14.

²²Application at 14.

Power Cost Charge	Calculation
Water Operations	<p>Electric Power Cost per TG =</p> <p>Previous Month's Electricity Cost</p> <p>Divided by Previous Month's Total Metered TG of Water</p> <p>Times 1.06385 (Public service company tax and PUC fee)</p> <p>Revenue Tax Factor = 1.068385</p>
Sewer Operations	<p>Electric Power Cost per TG =</p> <p>Previous Month's Electricity Cost</p> <p>Divided by Previous Month's Total Metered TG of Water</p> <p>Times 1.06385²³ (Public service company tax and PUC fee)</p> <p>Revenue Tax Factor = 1.068385</p>

4. Make certain revisions to its tariff rules, including: (1) adding paragraph 5 to Rule III of its tariff to require a developer to record against the property to be served a Declaration of Covenants, Conditions and Restrictions containing water conservation and usage provisions; and (2) revising Rule XI

²³The commission notes that the Application states "1.068385 (Public service company tax and PUC fee)," Application at 14 (emphasis added); however, based on the PCC calculation listed for water operations (above), the commission believes this is a typographical error, and that it should read: "1.06385."

of its tariff regarding Contributions in Aid of Construction ("CIAC") and Rule XII of its tariff governing System Extensions to make them consistent with revisions to other HWSC utilities.²⁴

KWSC, in support of its request for rate relief, contends that: (1) its current rates do not now and will not in the foreseeable future produce sufficient revenues to allow it a reasonable opportunity to earn a fair rate of return on its prudently incurred investment; (2) it has made significant capital improvements since its last rate case filing and intends to make additional capital improvements in the Test Year; and (3) the instant rate case is designed to allow it to earn a fair and reasonable return on its prudently incurred costs for utility assets providing water, wastewater, and irrigation service to its customers.²⁵

With respect to its capital investments, KWSC asserts that, for its water system, it has installed pumping equipment, has made improvements to the Reverse Osmosis Water Treatment Plant

²⁴Application at 14-15. See Docket No. 2009-0310 (regarding revisions to HWSC's Kaanapali Water Division's tariff) and Docket No. 2011-0331 (regarding revisions to WHUC's tariff).

²⁵Application at 5-6. According to KWSC, its last increase in water or wastewater rates for Kukio was in 2008, and that was based on expenses in 2007. See Transcript of the January 12, 2015, Public Hearing at 4, filed on January 27, 2015 (containing the oral testimony of Paul Townsley of CWSG).

("RO Water Treatment Plant"), has purchased new vehicles, and plans to install a new pre-filter pressure vessel as well as replace a leaking RO Water Treatment Plant pipe.²⁶ For its sewer system, KWSC states that it has installed pumping equipment, new pump controls, and emergency generators, and has replaced a discharge pipe.²⁷

C.

Public Hearing

On January 12, 2015, the commission held a public hearing on the relief requested by KWSC at Waikoloa Elementary & Middle School Cafeteria, island of Hawaii, in accordance with HRS § 269-16(b). KWSC's representative, the Consumer Advocate, and members from the general public appeared and testified. The members of the public who testified expressed their concerns with, and opposition to, KWSC's proposal to increase its rates and charges, as well as with the magnitude of the proposed increases.²⁸

²⁶Application at 5. See also Exhibit KWSC-T-400 at 5; Exhibit KWSC-T-403.

²⁷Application at 5-6. See also Exhibit KWSC-T-400 at 5; Exhibit KWSC-T-403.

²⁸See Transcript of the January 12, 2015, Public Hearing, filed January 27, 2015; and transmission letter from the commission to KWSC and the Consumer Advocate, filed January 14, 2015 (transmitting the sign-in sheet and written testimonies submitted to the commission).

D.

Procedural Background

The Consumer Advocate issued Information Requests ("CA-IR") to KWSC on November 10, 2014, November 20, 2014, December 5, 2014, and December 9, 2014. KWSC responded to the CA-IRs on March 13, 2015. On March 13, 2015, KWSC stated that the Consumer Advocate had also issued a Supplemental Information Request to KWSC. On March 17, 2015, KWSC responded to the Consumer Advocate's Supplemental Information Requests.

On March 17, 2015, the Consumer Advocate filed its Direct Testimonies and Exhibits ("CA-T"). On April 6, 2015, KWSC filed its Rebuttal Testimonies and Exhibits ("KWSC-RT"). On April 10, 2015, the Consumer Advocate issued Rebuttal Information Requests to KWSC. KWSC responded to these on April 17, 2015.

Thereafter, the Parties commenced settlement discussions. As a result, on May 4, 2015, the Parties filed the Partial Stipulation. Based on the Partial Stipulation, the Parties submitted a joint letter to the commission on May 4, 2015, requesting that the commission set deadlines for the Parties to file Statements of Position on Outstanding Issues and Statements of Probable Entitlement.

On May 15, 2015, the commission issued Order No. 32852, in which it established deadlines for the requested statements. Pursuant to Order No. 32852, the Parties submitted their Statements of Position on Outstanding Issues on May 21, 2015,²⁹ and a Joint Statement of Probably Entitlement on May 28, 2015. No evidentiary hearing was requested by the Parties in their joint letter dated May 4, 2015; accordingly, this proceeding is ready for decision making.³⁰

Order No. 32852 also confirmed that the commission would issue an interim decision and order by June 29, 2015. As noted above, the commission is, instead, issuing this final Order.

²⁹KWSC Statement of Position on Outstanding Issues, filed May 21, 2015 ("KWSC SOP"); Division of Consumer Advocacy's Post-Partial Stipulation Statement of Position Concerning Outstanding Issues Between Kona Water Service Company, Inc. and the Division of Consumer Advocacy, filed May 21, 2015, ("CA SOP").

³⁰See "Joint Letter From: J. Ing and Consumer Advocate To: Commission Re: Docket No. 2013-0375, Kona Water Service Company, Inc. ("KWSC") - General Rate Case; Stipulated Prehearing Order; Settlement Letter," filed May 4, 2015, at Exhibit A. "Exhibit A" did not include a date for an evidentiary hearing. Furthermore, the modified regulatory schedule approved by the commission in Order No. 32852 did not include an evidentiary hearing. Order No. 32852 at 1-2. Based on this record, the commission finds that the Parties have waived their right to request an evidentiary hearing in this proceeding.

E.

Issues

As set forth in Stipulated Prehearing Order No. 32797, filed April 21, 2015, the issues in this proceeding are:³¹

1. Are KWSC's proposed rate increases reasonable?
 - a. Are the proposed tariffs, rates and charges just and reasonable?
 - b. Are the revenue forecasts for the July 1, 2014 through June 30, 2015 test year (the "Test Year") at present rates and proposed rates reasonable?
 - c. Are the projected operating expenses for the Test Year reasonable?
 - d. Is the projected rate base for the Test Year reasonable, and are the properties included in the rate base used or useful for public utility purposes?
2. Should the Commission approve KWSC's request to replace its current Power Cost Adjustment Charge with a Power Cost Charge to include all electricity charges?

³¹See "Stipulated Prehearing Order No. 32797; Exhibit A; and Certificate of Service," filed April 21, 2015.

3. Should the [Commission] approve KWSC's other proposed changes to Tariff No. 1?

II.

Discussion

A.

Applicable Law

HRS § 269-16 states, in relevant part:

Regulation of utility rates; ratemaking procedures. (a) All rates, fares, charges, classifications, schedules, rules, and practices made, charged, or observed by any public utility or by two or more public utilities jointly shall be just and reasonable and shall be filed with the public utilities commission. The rates, fares, classifications, charges, and rules of every public utility shall be published by the public utility in such manner as the public utilities commission may require, and copies shall be furnished to any person on request.

To the extent the contested case proceedings referred to in chapter 91 are required in any rate proceeding to ensure fairness and to provide due process to parties that may be affected by rates approved by the commission, the evidentiary hearings shall be conducted expeditiously and shall be conducted as a part of the ratemaking proceeding.

(b) No rate, fare, charge, classification, schedule, rule, or practice, other than one established pursuant to an automatic rate adjustment clause previously approved by the commission, shall be established, abandoned, modified, or departed from by any public utility, except after thirty days' notice to the commission as prescribed in section 269-12(b), and prior

approval by the commission for any increases in rates, fares, or charges A contested case hearing shall be held in connection with any increase in rates, and the hearing shall be preceded by a public hearing as prescribed in section 269-12(c), at which the consumers or patrons of the public utility may present testimony to the commission concerning the increase. The commission, upon notice to the public utility, may:

- (1) Suspend the operation of all or any part of the proposed rate, fare, charge, classification, schedule, rule, or practice or any proposed abandonment or modification thereof or departure therefrom;
- (2) After a hearing, by order:
 - (A) Regulate, fix, and change all such rates, fares, charges, classifications, schedules, rules, and practices so that the same shall be just and reasonable;
 - (B) Prohibit rebates and unreasonable discrimination between localities or between users or consumers under substantially similar conditions;
 - (C) Regulate the manner in which the property of every public utility is operated with reference to the safety and accommodation of the public.
 - (D) Prescribe its form and method of keeping accounts, books, and records, and its accounting system;

(E) Regulate the return upon its public utility property;

(F) Regulate the incurring of indebtedness relating to its public utility business; and

(G) Regulate its financial transactions; and

- (3) Do all things that are necessary and in the exercise of the commission's power and jurisdiction, all of which as so ordered, regulated, fixed, and changed are just and reasonable, and provide a fair return on the property of the utility actually used or useful for public utility purposes.

.....

(d) The commission shall make every effort to complete its deliberations and issues its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application; provided that in carrying out this mandate, the commission shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes. If a decision is rendered after the nine-month period, the commission shall report in writing the reasons therefor to the legislature within thirty days after rendering the decision.

Notwithstanding subsection (c), if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section, the commission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the

evidentiary record before it, believes the public utility is probably entitled. The commission may postpone its interim rate decision for thirty days if the commission considers the evidentiary hearings incomplete. In the event interim rates are made effective, the commission shall require by order the public utility to return, in the form of an adjustment to rates, fares, or charges to be billed in the future, any amounts with interest, at a rate equal to the rate of return on the public utility's rate base found to be reasonable by the commission, received under the interim rates that are in excess of the rates, fares, or charges finally determined to be just and reasonable by the commission. Interest on any excess shall be commence as of the date that any rate, fare, or charge goes into effect that results in the excess and shall continue to accrue on the balance of the excess until returned.

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While the deadline for the commission to issue its interim decision and order is June 29, 2015,³² the commission issues this final Order in lieu of an interim decision and order. This renders moot the issuance of an interim decision and order.

³²See Order No. 32852.

B.

Stipulation for Partial Settlement

1.

Terms and Conditions

The Partial Stipulation consists of the text of the Parties' Partial Stipulation and Exhibit A, which sets forth the Parties' supporting schedules relating to issues that have been agreed upon, and Exhibit B, which sets forth additional supporting schedules that were sealed pursuant to protective order.³³ The Parties agreed on nearly all of the factual aspects of this proceeding except for: (1) the Consumer Advocate's excess capacity adjustment to the water system; (2) the Consumer Advocate's proposed "True-Up" Adjustment to rate base; (3) the Consumer Advocate's committed capacity adjustment to rate base for the Stroud property; and (4) the rate design (collectively, the "Outstanding Issues").³⁴ Additionally, there were various corresponding expenses and rate base components that were dependent on resolution of the Outstanding Issues, and, therefore, were not stipulated.³⁵

³³See Protective Order No. 32255, filed August 7, 2014, in Docket No. 2013-0375.

³⁴Partial Stipulation at 1-2.

³⁵See Partial Stipulation at 41-43 and 49-50.

In reaching the Partial Stipulation:³⁶

The Parties agree that the following provisions of this Stipulation are binding as between them with respect to the specific issues and matters to be resolved in this Stipulation. In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent compromises by the Parties to fully and finally resolve the issues addressed in this Stipulation on which they had differences for the purpose of simplifying and expediting the proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein. The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings. Furthermore, the Parties agree that nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation, and except as may be specifically agreed to herein.

The Parties acknowledge that the Partial Stipulation is subject to the commission's review and approval, and that the commission is not bound by the Partial Stipulation.³⁷ In this regard, it is well-settled that an agreement between the parties in a rate case cannot bind the commission, as the commission has

³⁶Partial Stipulation at 6-7.

³⁷Partial Stipulation at 2 and 63.

an independent obligation to set fair and just rates, and to arrive at its own conclusion.³⁸

With this mandate, the commission will review the justness and reasonableness of the provisions of the Partial Stipulation.

2.

Summary

KWSC's public utility operations consist of its water and sewer services.

The Parties have reached an agreement on KWSC's Test Year: (1) sales and revenue for its water and sewer operations; and (2) operations and maintenance ("O&M") expenses for its water and sewer operations.

Regarding rate base, the Parties have reached an agreement on KWSC's Test Year average rate base for its sewer operations. Additionally, the Parties have stipulated to rate base adjustments for committed capacity to two properties (the Makalei and Roberts Properties) for KWSC's water operations. The Parties

³⁸See In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 698 P.2d 304 (1985).

have also agreed on Test Year average CIAC for KWSC's water and sewer operations, as well as Test Year average working capital for KWSC's water and sewer operations. Regarding rate of return ("ROR"), the Parties have stipulated to a 7.75% ROR for KWSC's water and sewer operations.

Additionally, the Parties have agreed to several changes to KWSC's Tariff, including revisions to KWSC's tariff rules governing conservation measures (Rule III), CIAC (Rule XI), and System Extension Rules (Rule XII), and the replacement of KWSC's PCAF with a PCC.

Finally, regarding KWSC's rate design, the Parties have agreed that: (1) KWSC will perform a cost of service study prior to filing its next rate case; and (2) any rate increase approved by the commission will be implemented in two phases, six months apart.

C.

Sales and Revenues at Present Rates

KWSC's existing rate design for its water and sewer operations consist of a monthly fixed charge and a monthly quantity

charge based on usage.³⁹ Based on KWSC's existing rate design, the Parties have stipulated to a total sum of \$3,571,594 in combined operating revenue at present rates as follows:

Water Operations⁴⁰

	Test Year Revenues (Present Rates)
Fixed service charge	\$42,870
Water quantity charge	\$1,579,676
subtotal	\$1,622,546
Power Cost Adjustment Factor ⁴¹	\$1,042,603
Total	\$2,665,149

³⁹Partial Stipulation at 8.

⁴⁰Partial Stipulation at 9-10.

⁴¹KWSC's tariff currently includes an automatic PCAF, which generally passes through to ratepayers increases and decreases in electricity costs associated with the provision of utility services. See, Proposed Decision and Order No. 21885, filed June 22, 005 in Docket No. 04-0373, at 8. As noted, supra, KWSC is proposing to replace the PCAF with a PCC.

The Parties appear to agree on the amount of the Test Year PCAF for water operations, as indicated by their exhibits to their respective Post-Partial Stipulation Statement of Position on Outstanding Issues. See KWSC SOP, at Exhibit A, Schedule KWSC Water 6.1 and CA SOP, at Exhibit CA-W-101.

Sewer Operations⁴²

	Test Year Revenues (Present Rates)
Fixed service charge	\$128,713
Sewer quantity charge	\$711,822
subtotal	\$840,535
Power Cost Adjustment Factor ⁴³	\$65,910
Total	\$906,445

1.

Water Operations

The Parties stipulated to the following estimates for KWSC's operating revenues at present rates for its water operations:

⁴²Partial Stipulation at 12-13.

⁴³The Parties appear to agree on the amount of the Test Year PCAF for sewer operations, as indicated by their exhibits to their respective Post-Partial Stipulation Statement of Position on Outstanding Issues. See KWSC SOP at Exhibit A, Schedule KWSC Sewer 6.1, and CA SOP at Exhibit CA-S-101.

Fixed Service Charge⁴⁴

Customer	Test Year Revenues (Present Rates)
Residential	\$35,481
Commercial (non-restaurant)	\$7,083
Commercial (other)	\$306
Total	\$42,870

The Parties' stipulated estimates for revenues generated from the fixed service charge are based on the following customer counts:⁴⁵

Category	Number of Customers
Residential	211
Commercial (non-restaurant)	27
Commercial (other)	2
Total	240

⁴⁴Partial Stipulation at 9 and Exhibit A, Exhibit KWSC Water 8.1 (Settlement). The commission notes that while the Parties refer to the schedules contained in Exhibit A as "Schedules," in Exhibit A, they are prefaced with "Exhibit KWSC." For ease of reference, the commission will refer to the Partial Stipulation's supporting schedules by the label found in their upper right corner.

⁴⁵Partial Stipulation at 8 and Exhibit A, Exhibit KWSC Water 8.2 (Settlement).

Water Quantity Charge⁴⁶

Customer	Test Year Revenues (Present Rates)
Residential	\$1,353,424
Commercial (non-restaurant)	\$216,653
Commercial (other)	\$9,599
Total	\$1,579,676

The Parties' stipulated estimates for revenues generated from the water quantity charge are based on the following water usage, in thousands of gallons ("TG"):⁴⁷

⁴⁶Partial Stipulation at 10 and Exhibit A, Exhibit KWSC Water 8.1 (Settlement). The commission notes that in the Partial Stipulation, the Parties state: ". . . the Parties stipulate to **total water revenue (i.e. fixed and usage)** at present rates as follows" and cite Exhibit A, Schedule Water 8.1 (Settlement). Partial Stipulation at 10-11 (emphasis added). It appears that this is a typographical error, and that the table on page 10 only reflects **usage** revenues, **not** "fixed and usage" revenues. Review of Exhibit A, Exhibit KWSC Water 8.1 (Settlement) indicates that the numbers contained in the table on page 10 of the Partial Stipulation correspond to the sums for water usage only (for example, in Exhibit A, Exhibit KWSC Water 8.1 (Settlement) the subtotal for residential customers is "\$1,388,905," consisting of fixed and usage revenues; when fixed revenue (\$35,481) is subtracted from the subtotal, the difference is \$1,353,424, which represents the revenue from usage).

Furthermore, the Parties have already stipulated to a table for fixed revenues at present rates, see Application at 9, which further supports the commission's conclusion that the table at page 10 of the Partial Stipulation is only intended to reflect "usage" revenues at present rates.

⁴⁷Partial Stipulation at Exhibit A, Exhibit KWSC Water 8.2 (Settlement).

Category	Water Sales
Residential	182,949 TG
Commercial (non-restaurant)	25,236 TG
Commercial (Other)	4,161 TG
Total	212,346 TG

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the Parties' stipulated estimates for KWSC's revenues for its water operations are reasonable.

2.

Sewer Operations

The Parties stipulated to the following estimates for KWSC's operating revenues at present rates for its sewer operations:

Fixed Service Charge⁴⁸

Customer	Test Year Revenues (Present Rates)
Residential	\$121,598
Commercial (non-restaurant)	\$7,115
Total	\$128,713

⁴⁸Partial Stipulation at 12 and Exhibit A, Exhibit KWSC Sewer 8.1 (Settlement).

The Parties' stipulated estimates for revenues generated from the fixed service charge are based on the following customer counts:⁴⁹

Category	Number of Customers
Residential	188
Commercial (non-restaurant)	11
Total	199

Sewer Quantity Charge⁵⁰

Customer	Test Year Revenues (Present Rates)
Residential	\$646,305
Commercial (non-restaurant)	\$65,517
Total	\$711,822

The Parties' stipulated estimates for revenues generated from the sewer quantity charge are based on the following sewer consumption (in TG):⁵¹

Category	Water Sales
Residential	171,207 TG
Commercial (non-restaurant)	17,356 TG
Total	188,563 TG⁵²

⁴⁹Partial Stipulation at 11 and Exhibit A, Exhibit KWSC Sewer 8.2 (Settlement).

⁵⁰Partial Stipulation at 13 and Exhibit A, Exhibit KWSC Sewer 8.1 (Settlement).

⁵¹Partial Stipulation at Exhibit A, Exhibit KWSC Sewer 8.2 (Settlement).

⁵²The Parties list "Total Consumption" for KWSC's sewer operations as "188,652." The commission notes that $171,207 + 17,356 = 188,563$. Partial Stipulation at Exhibit A, Exhibit KWSC Sewer 8.2 (Settlement). The commission finds that this and other minor variations of similar amounts found throughout

Based on its review of the record, as well as the Partial Stipulation, the commission concludes that the Parties' stipulated estimates for KWSC's operating revenues for its sewer operations at present rates are reasonable.

3.

Summary

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the sum of \$3,571,594 in total operating revenues, consisting of: (1) the Parties' stipulated total sum of \$2,463,081 in residential and customer revenues; and (2) \$1,108,513 in uncontroverted PCAF revenues, is reasonable.

D.

Allocation of Shared Operational Costs

As discussed above, HWSC, directly or through its subsidiaries, currently owns and operates two systems on Maui and seven systems on the Big Island.⁵³ HWSC uses an internal

the Partial Stipulation are minor discrepancies and do not affect the reasonableness of the Partial Stipulation.

⁵³Partial Stipulation at 13-14.

four-factor method to allocate general operational costs among its regulated utility companies. The four factors used to determine the allocation include: (1) the number of customer equivalents; (2) gross plant in service; (3) direct operation and maintenance expenses; and (4) direct gross payroll.⁵⁴

The Hawaii shared costs are organized into four separate expense pools for allocations to the Hawaii business units: (1) Department 790 - Hawaii General Office: General Administrative Labor, as well as other costs, to be allocated to all systems in the state of Hawaii; (2) Department 720 - Big Island: Labor, as well as other costs, associated with the seven systems on the Big Island; and (3) Department 796 - Wastewater Administration: Labor, as well as other costs, only to be allocated to the three sewer departments.⁵⁵ That being said, certain KWSC expenses are allocated between two additional departments: (1) Department 726 (KWSC Water) and Department 727 (KWSC Sewer).⁵⁶

Three departments flow to KWSC's waster operations, Departments 790, 720, and 726, and their allocation percentages for the Test Year are 10.15%, 14.09%, and 64.11%, respectively.⁵⁷

⁵⁴Partial Stipulation at 14.

⁵⁵Partial Stipulation at 14.

⁵⁶Partial Stipulation at 14.

⁵⁷Partial Stipulation at 14.

Departments 790, 720, 727, and 796 flow to KWSC's sewer operations.⁵⁸ Their respective allocation percentages to KWSC's sewer operations are 6.04%, 8.34%, 35.89%, and 14.87%, respectively.⁵⁹

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the use and application of HWSC's four-factor allocation methodology is reasonable for this proceeding. The commission observes that it recently approved the use of HWSC's four-factor allocation methodology for WHUC.⁶⁰ Additionally, the commission notes that the Consumer Advocate does not take issue with the four-factor methodology, as described above, in this proceeding.⁶¹

Finally, the Parties have agreed that in pending and future rate cases of other HWSC business units, HWSC will use substantially the same methodology to allocate shared expenses as agreed to in this rate case, unless either HWSC or the Consumer Advocate presents reasonable justification to change the methodology.⁶²

⁵⁸Partial Stipulation at 14-15.

⁵⁹Partial Stipulation at 15.

⁶⁰See Decision and Order No. 32107 ("Order No. 32107"), filed May 23, 2014, in Docket No. 2011-0331, at 37-39.

⁶¹Partial Stipulation at 15.

⁶²Partial Stipulation at 15.

E.

Operations and Maintenance Expenses

The Parties stipulated to the following consolidated operations and maintenance ("O&M") expense amounts at present rates:⁶³

Expense	Present Rates (Consolidated)
Labor	\$1,151,806
Fuel and power	\$1,722,761
Chemicals	\$94,877
Materials and supplies	\$15,152
Waste/sludge disposal	\$2,846
Affiliated charges	\$136,397
Professional and outside services	(\$27,023)
Repairs and maintenance	\$139,770
Rental	\$21,937
Insurance	\$15,460
Regulatory	\$51,333
General and Administrative	\$85,481
Miscellaneous and other	\$9,494
Total O&M Expenses	\$3,420,291

1.

Methodology

For most of its expenses, KWSC proposed using a two-year or three-year average from 2011 to 2013 to estimate its Test Year expenses.⁶⁴ KWSC also argued that an inflation adjustment should be applied to certain expenses⁶⁵ in order to account for changes

⁶³See generally, Partial Stipulation at 20-40.

⁶⁴Partial Stipulation at 15.

⁶⁵KWSC applied an inflation adjustment to expenses for Water and Sewer Chemicals; Sewer Material & Supplies; Sewer Waste/Sludge

in prices of goods and services from the averaged period up to the Test Year.⁶⁶ KWSC accomplished this by applying the Honolulu Consumer Price Index ("CPI") to the 2011-2013 averaged period.⁶⁷ KWSC argued that this would better represent forecasted costs during the Test Year.⁶⁸

The Consumer Advocate did not agree with this methodology, noting that KWSC had changed its accounting methodology in 2013, which resulted in certain 2013 expenses being categorized differently than in prior years.⁶⁹ As a result, the Consumer Advocate argued that it is difficult to compare the expense levels from pre-2013 years with the 2013 expenses, making it difficult to analyze historical trends.⁷⁰ Additionally, the Consumer Advocate observed that in response to its information requests, KWSC had provided more current information, such as

Disposal; Water and Sewer Professional and Outside Services; Water and Sewer Repairs & Maintenance; Sewer Rental; Water and Sewer General & Administrative; and Water and Sewer Miscellaneous. See CA-T-200 at 3-4.

⁶⁶Partial Stipulation at 16. See also, Application, Exhibit KWSC-T-200 at 2.

⁶⁷Application, Exhibit KWSC-T-200 at 2.

⁶⁸Application, Exhibit KWSC-T-200 at 2.

⁶⁹Partial Stipulation at 15.

⁷⁰Partial Stipulation at 15. See also, CA-T-2 at 5.

the recorded expenses for 2014.⁷¹ Thus, to ensure that 2014 activity did not include extraordinary events, the Consumer Advocate recommended that the 2014 expenses should be used to develop the average historical expenses for this proceeding, and suggested using a two-year historical average based on KWSC's 2013 and 2014 expenses, instead of 2011-2013 expenses.⁷²

Additionally, the Consumer Advocate disagreed that CPI inflation adjustment should be made to the averaged period.⁷³ The Consumer Advocate argued that: (1) KWSC has not demonstrated any direct relationship between the CPI and price increases experienced by KWSC, which could cause Test Year expenses to be overstated; (2) KWSC's attempt to inflate the actual cost of expenses in prior years to determine the Test Year amounts has never been allowed by the commission in the past; and (3) the inflation adjustment was not proposed in prior rate cases by KWSC's affiliates.⁷⁴

Ultimately, the Parties agreed to: (1) use a two-year historical average based on 2013 and 2014 expenses, except for

⁷¹CA-T-2 at 6.

⁷²CA-T-2 at 6.

⁷³Partial Stipulation at 16; see also, CA-T-2 at 3-5.

⁷⁴Partial Stipulation at 16; see also, CA-T-2 at 4-5.

labor, rent, and regulatory expenses;⁷⁵ and (2) apply the CPI adjustment factor to KWSC's 2013 recorded expenses, except for labor, fuel and power, and rental.⁷⁶

2.

Labor

KWSC's labor expense is comprised of three accounts:

(1) payroll; (2) employee benefits; and (3) payroll taxes.⁷⁷

The Parties have stipulated to a sum of \$1,151,806 in labor expense at present rates as follows:⁷⁸

	Water	Sewer	Total
Payroll	\$379,411	\$269,352	\$648,763
Employee benefits	\$267,825	\$182,042	\$449,867
Payroll taxes	\$31,033	\$22,143	\$53,176
Total Labor	\$678,269	\$473,537	\$1,151,806

KWSC's payroll was calculated based on the four-factor methodology applied to total wages.⁷⁹ KWSC removed 401(k) pension expenses, consistent with recent rate cases of its affiliates.⁸⁰

⁷⁵Partial Stipulation at 15-16; see also, KWSC-RT-200 at 7.

⁷⁶Partial Stipulation at 17.

⁷⁷Partial Stipulation at 17.

⁷⁸Partial Stipulation at 20; and Exhibit A, Exhibits KWSC Water 8.3 (Settlement) and KWC Sewer 8.3 (Settlement).

⁷⁹Partial Stipulation at 17.

⁸⁰Partial Stipulation at 17.

The employee benefit expense was then allocated to KWSC using the four-factor methodology.⁸¹ KWSC explained that its Test Year labor expense replaces the professional and outside services expense under an operating and maintenance agreement with Hawaii Water Service Utility Service ("HWSUS"), an affiliate of KWSC.⁸² The Consumer Advocate concluded that KWSC's decision to use employees rather than continue the HWSUS contract appears reasonable for KWSC's water and sewer operations.⁸³

The Parties also agreed to several adjustments to labor expense:

1. Payroll. The Parties agreed to: (1) remove the store purchasing clerk and general manager positions, both of which were eliminated at the end of 2014; and (2) revise the local manager position to a project manager position.⁸⁴ Because the project manager position did not begin until 2015, the Parties agreed to use the 2015 calendar year expense for that particular position in computing payroll expense, but agree that the remaining

⁸¹Partial Stipulation at 17.

⁸²Partial Stipulation at 17.

⁸³Partial Stipulation at 18.

⁸⁴Partial Stipulation at 19.

payroll expense would be based on the July 1, 2014 to June 30, 2015, split-year Test Year.⁸⁵

2. Employee Benefits. The Parties agreed to: (1) remove employee benefits expense for the store purchasing clerk and general manager positions; (2) add the allocated pension and benefits expense for the superintendent position to water and sewer operations, which had been inadvertently excluded from the Test Year estimate (which amounted to \$22,381 for water operations and \$22,381 for sewer operations); and (3) a workers compensation expense of \$10,737 for water operations and \$7,623 for sewer operations.⁸⁶

3. Payroll Taxes. The Parties agreed to a corresponding adjustment to payroll taxes to reflect the revised Test Year payroll amount.⁸⁷

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total labor expense of \$1,151,806 at present rates.

⁸⁵Partial Stipulation at 19.

⁸⁶Partial Stipulation at 19-20.

⁸⁷Partial Stipulation at 20.

3.

Fuel and Power

The Parties stipulated to a sum of \$1,722,761 in fuel and power expense at present rates as follows:⁸⁸

Water Operations	\$1,560,631
Sewer Operations	\$162,130
Total	\$1,722,761

KWSC forecasted purchased power expense for water operations at present rates by first projecting an estimate of kilowatt hours ("kWh") of electricity to be purchased in the Test Year based on a two-year average of 2012-2013.⁸⁹ KWSC next calculated the unit cost of electricity by dividing the sum of dollars spent for electricity by the amount of power used.⁹⁰ The unit cost was estimated by taking a two-year average of the unit cost from 2012-2013.⁹¹ KWSC then multiplied the average of kWh to be purchased by the average projected unit cost to calculate the power expense for the Test Year.⁹²

⁸⁸Partial Stipulation at 25 and Exhibit A, Exhibits KWSC Water 8.5 (Settlement), and KWSC Sewer 8.5 (Settlement).

⁸⁹Partial Stipulation at 21.

⁹⁰Partial Stipulation at 21.

⁹¹Partial Stipulation at 21.

⁹²Partial Stipulation at 21.

KWSC applied a similar methodology to its sewer operations. Test Year power usage for sewer operations was estimated based on the sum of power usage for the seven pump stations and the wastewater treatment plant.⁹³ Test Year power cost for sewer operations was calculated in the same manner as water operations (i.e. sum of dollars spent for electricity divided by the amount of power used, based on a two-year average of the unit cost from 2012-2013).⁹⁴

As a result of settlement discussions, the Parties agreed to several adjustments to this methodology, including: (1) using 2014 energy consumption and unit price for water and sewer operations; (2) using a pump efficiency factor to calculate both the PCC and the Test Year fuel and power expense;⁹⁵ and (3) using a 10% water loss factor to compute fuel and power expense.⁹⁶

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties'

⁹³Partial Stipulation at 21.

⁹⁴Partial Stipulation at 21.

⁹⁵The Parties have agreed to a pump efficiency factor of 18.71 kWh/TG based on electrical usage measured at the main meter divided by the number of gallons pumped. Partial Stipulation at 24.

⁹⁶Partial Stipulation at 22-24.

stipulated total fuel and power expense of \$1,722,761 at present rates.

4.

Chemicals

The Parties stipulated to a sum of \$94,877 in chemicals expense at present rates as follows:⁹⁷

Water Operations	\$91,861
Sewer Operations	\$3,016
Total	\$94,877

The Parties agreed that KWSC's Test Year chemicals expense is based on a two-year average of 2013 and 2014 unit prices.⁹⁸ Additionally, the Parties agreed to apply the Honolulu CPI factor to recorded 2013 expenses.⁹⁹

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total chemicals expense of \$94,877 at present rates.

⁹⁷Partial Stipulation at 25-26 and Exhibit A, Exhibits KWSC Water 8.7 (Settlement), and KWSC Sewer 8.7 (Settlement).

⁹⁸Partial Stipulation at 25.

⁹⁹Partial Stipulation at 25.

5.

Materials and Supplies

The Parties stipulated to a sum of \$15,152 in materials and supplies expense at present rates as follows:¹⁰⁰

Water Operations	\$0
Sewer Operations	\$15,152
Total	\$15,152

In its Application, KWSC did not project a materials and supplies expense for the Test Year for water operations.¹⁰¹ The Consumer Advocate did not make any adjustments to this expense for water operations.¹⁰²

For sewer operations for the Test Year, the Parties agreed to: (1) use a two-year average of 2013-2014 recorded expenses; and (2) apply the Honolulu CPI factor to KWSC's 2013 recorded expenses.¹⁰³

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total materials and supplies expense of \$15,152 at present rates.

¹⁰⁰Partial Stipulation at 26 and Exhibit A, Exhibits KWSC Water 8.8 (Settlement), and KWSC Sewer 8.8 (Settlement).

¹⁰¹Partial Stipulation at 26; see also, Application at Exhibit KWSC Water 8.8.

¹⁰²Partial Stipulation at 26.

¹⁰³Partial Stipulation at 26.

6.

Waste/Sludge Disposal

The Parties stipulated to a sum of \$2,846 in waste/sludge disposal expense at present rates as follows:¹⁰⁴

Water Operations	\$0
Sewer Operations	\$2,846
Total	\$2,846

In its Application, KWSC did not project a waste/sludge disposal expense for the Test Year for water operations.¹⁰⁵ The Consumer Advocate did not make any adjustments to this expense for water operations.¹⁰⁶

For sewer operations for the Test Year, the Parties agreed to: (1) use a two-year average of 2013-2014 recorded expenses; and (2) apply the Honolulu CPI factor to KWSC's 2013 recorded expenses.¹⁰⁷

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total materials and supplies expense of \$2,846 at present rates.

¹⁰⁴Partial Stipulation at 27 and Exhibit A, Exhibits KWSC Water 8.9 (Settlement), and KWSC Sewer 8.9 (Settlement).

¹⁰⁵Partial Stipulation at 27; see also, Application at Exhibit KWSC Water 8.9.

¹⁰⁶Partial Stipulation at 27.

¹⁰⁷Partial Stipulation at 27.

7.

Affiliated Charges

The Parties stipulated to a sum of \$136,397 in affiliated charges expense at present rates as follows:¹⁰⁸

Water Operations	\$85,511
Sewer Operations	\$50,886
Total	\$136,397

KWSC's affiliated charges are allocated expenses incurred by CWSG and its subsidiaries, California Water Service Company ("CWSC") and HWSC.¹⁰⁹ CWSG's expenses are allocated to its subsidiaries based on relative proportions of work being performed.¹¹⁰ A large portion of the work resides in the General Office of CWSC.¹¹¹ Within the General Office, there are a number of departments that provide services for HWSC and KWSC.¹¹² According to KWSC, CWSG uses this business model because it is more cost effective to provide these functions centrally,

¹⁰⁸Partial Stipulation at 31 and Exhibit A, Exhibits KWSC Water 8.10 (Settlement), and KWSC Sewer 8.10 (Settlement).

¹⁰⁹Partial Stipulation at 28.

¹¹⁰Partial Stipulation at 28.

¹¹¹Partial Stipulation at 28.

¹¹²Partial Stipulation at 28.

rather than hiring specific expertise needed for each particular subsidiary business unit.¹¹³

In 2013, CWSG and CWSC created the Public Company Department to accumulate the respective expenses of the different General Office departments of CWSG and CWSC.¹¹⁴ The four-factor allocation methodology is used by CWSG and its affiliates to allocate the General Office costs when employee services benefit two or more business units.¹¹⁵

As a result of settlement discussions, the Parties agreed to several adjustments to KWSC's affiliated charges expense, including: (1) removing HWSC's affiliated charges and including them in their respective accounts (e.g. removing expenses such as payroll, employee benefits, and depreciation from the affiliated charges, since these expenses were already accounted for in their respective accounts and would have been double-counted);¹¹⁶ (2) using a two-year average of 2013 and 2014 recorded expenses (applying the Honolulu CPI factor to the

¹¹³Application, Exhibit KWSC-T-200 at 7.

¹¹⁴CA-T-2 at 24.

¹¹⁵CA-T-2 at 25.

¹¹⁶See Partial Stipulation at 29.

2013 expense); and (3) reducing the two-year average of affiliated charges expense by 10%.¹¹⁷

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total affiliated charges expense of \$136,397 at present rates.

8.

Professional and Outside Services

The Parties stipulated to a sum of (\$27,023) in professional and outside services expense at present rates as follows:¹¹⁸

Water Operations	(\$34,061) ¹¹⁹
Sewer Operations	\$7,038
Total	(\$27,023)

¹¹⁷Partial Stipulation at 31. The 10% reduction represents a compromise by the Parties over the Consumer Advocate's concerns that KWSC's affiliated charges had substantially increased from 2010 to 2014 without adequate explanation. See CA-T-2 at 29-32.

¹¹⁸Partial Stipulation at 33 and Exhibit A, Exhibits KWSC Water 8.11 (Settlement) and KWSC Sewer 8.11 (Settlement).

¹¹⁹KWSC states that payments it received from the Makalei property for services provided to the Makalei system would be credited to the outside services account. Partial Stipulation at 31-32. Accordingly, the stipulated professional and outside services expense reflects a credit from the Makalei system. See Partial Stipulation at 33, and Exhibit A, Exhibit KWSC Water 8.11 (Settlement).

Historically, KWSC's professional and outside services charges were incurred pursuant to an operations and maintenance agreement it had with HWSUS, a non-regulated affiliate of KWSC that provides water and sewer operator service to various companies on the Big Island.¹²⁰ KWSC would also bill Makalei for this service and credit the amounts KWSC received to its total O&M expense.¹²¹ Because KWSC terminated the HWSUS contract beginning in the Test Year, it based the Test Year's professional and outside services expense on a three-year average of outside legal and other external services.¹²² For the Test Year, KWSC continued to operate and maintain the Makalei system and bill for these services, and the amount collected was credited to the outside services account.¹²³

As a result of settlement discussion, the Parties agreed to the following adjustments:

1. Water Operations. The Parties agreed to: (1) add back legal expenses and allocations expenses that had been recorded by KWSC in affiliated charges; (2) remove the inflation factor from the 2014 recorded expenses; (3) use a two-year average of the 2013 and 2014 recorded expenses (applying the Honolulu CPI factor

¹²⁰Partial Stipulation at 31.

¹²¹Partial Stipulation at 31.

¹²²Partial Stipulation at 31.

¹²³Partial Stipulation at 31-32.

to the 2013 expenses only) to project the Test Year expense; (4) adjust the Makalei payments to include a 3% increase stated in the contract;¹²⁴ and (5) add \$2,750 for toilet rental and laundry expense.¹²⁵

2. Sewer Operations. The Parties agreed to: (1) add back legal expenses and allocations expenses that have been recorded by KWSC in affiliated charges; (2) remove the inflation factor from the 2014 recorded expenses; (3) use a two-year average of the 2013 and 2014 recorded expenses (applying the Honolulu CPI factor to the 2013 expenses only) to project the Test Year expense; and (4) add \$2,750 for toilet rental and laundry expense.¹²⁶

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total professional and outside services expense of (\$27,023) at present rates.

¹²⁴Pursuant to the contract between KWSC and Makalei, the Makalei payments to KWSC increased by 3% beginning in September 2014. CA-T-3 at 21.

¹²⁵Partial Stipulation at 32-33.

¹²⁶Partial Stipulation at 32-33.

Repairs and Maintenance

The Parties stipulated to a sum of \$139,770 in repairs and maintenance expense at present rates as follows:¹²⁷

Water service	\$55,381
Sewer service	\$84,389
Total	\$139,770

In its Application, KWSC estimated its Test Year repairs and maintenance expense based on a three-year average of recorded expenses from 2011-2013, adjusted for inflation.¹²⁸ KWSC subsequently reduced its estimates by removing expenses for labor, supervision, and engineering that were already counted for in other accounts, and where inadvertently included.¹²⁹

As a result of settlement discussions, the Parties agreed to the following adjustments: (1) basing the Test Year expense on a two-year average of recorded expenses from 2013-2014 (with the Honolulu CPI factor being applied to KWSC's 2013 recorded expenses only);¹³⁰ and (2) capitalizing a 2013 Flygt pump rebuild

¹²⁷Partial Stipulation at 35 and Exhibit A, Exhibits KWSC Water 8.12 (Settlement) and KWSC Sewer 8.12 (Settlement).

¹²⁸Partial Stipulation at 33.

¹²⁹Partial Stipulation at 33. See also, CA-T-2 at 34-35.

¹³⁰Due to an accounting change that occurred in 2013 that reclassified certain expenses to affiliated charges, this adjustment required the Parties to add back these allocated

used for sewer operations (which reduced pumping expenses); and (3) including annual maintenance funds for six emergency generators that KWSC had installed for sewer operations.¹³¹

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total repairs and maintenance expense of \$139,770 at present rates.

10.

Rental

The Parties stipulated to a sum of \$21,937 in rental expense at present rates as follows:¹³²

Water service	\$18,528
Sewer service	\$3,409
Total	\$21,937

KWSC's rental expense for its water operations consists of rent at the Waikoloa Highlands Shopping Center and a lease with the Department of Land and Natural Resources.¹³³ For its

expenses to their respective line items for 2013 and 2014. CA-T-2 at 35.

¹³¹Partial Stipulation at 34-35.

¹³²Partial Stipulation at 36 and Exhibit A, Exhibits KWSC Water 8.13 (Settlement), and KWSC Sewer 8.13 (Settlement).

¹³³Partial Stipulation at 35.

sewer operations, rental expense consists of rent at the Waikoloa Highlands Shopping Center and equipment rental.¹³⁴ After the filing of its Application, KWSC entered into a new lease with the Waikoloa Highlands Shopping Center, and provided a revised rental expense estimate.¹³⁵ As a result of settlement discussions, the Parties agreed to accept the revised rent for the Waikoloa Highlands Shopping Center.¹³⁶ The Parties also agreed to eliminate the sewer equipment rental component, since the recorded equipment rental expense for 2013 and 2014 was zero.¹³⁷

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total rental expense of \$21,937 at present rates.

11.

Insurance

The Parties stipulated to a sum of \$15,460 in insurance expense at present rates as follows:¹³⁸

¹³⁴Partial Stipulation at 35.

¹³⁵Partial Stipulation at 35-36.

¹³⁶Partial Stipulation at 36.

¹³⁷Partial Stipulation at 36; see also, CA-T-2 at 38.

¹³⁸Partial Stipulation at 37 and Exhibit A, Schedules Water 8.14, and Sewer 8.14.

Water service	\$8,808
Sewer service	\$6,652
Total	\$15,460

The Parties agreed to base the KWSC's Test Year insurance expense on a two-year average of 2013 and 2014 expenses (applying a Honolulu CPI adjustment factor to 2013 expenses only).¹³⁹

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these amounts are reasonable, and approves the Parties' stipulated total insurance expense of \$15,460 at present rates.

12.

Regulatory

The Parties stipulated to a sum of \$51,333 in regulatory expense at present rates as follows:¹⁴⁰

Water Operations	\$32,910
Sewer Operations	\$18,423
Total	\$51,333

¹³⁹Partial Stipulation at 37.

¹⁴⁰Partial Stipulation at 38 and Exhibit A, Exhibits KWSC Water 8.15 (Settlement), KWSC Water 8.16 (Settlement), KWSC Sewer 8.15 (Settlement), and KWSC Sewer 8.16 (Settlement).

As a result of settlement discussions, the Parties agreed to the following adjustments: (1) removal of the \$25,000 expense associated with the hearings and briefing phase;¹⁴¹ and (2) a three-year amortization period for regulatory expense.¹⁴²

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total regulatory expense of \$51,333 at present rates.

13.

General and Administrative

The Parties stipulated to a sum of \$85,481 in general and administrative expense at present rates as follows:¹⁴³

Water operations	\$52,740
Sewer operations	\$32,741
Total	\$85,481

The Parties agreed to add back allocated expense to their respective line items for 2013 and 2014, and to base the expense

¹⁴¹KWSC conditioned its agreement on the basis that there is no need for hearings and briefs. Partial Stipulation at 38. As noted, supra, the commission finds that the Parties have waived their right to request an evidentiary hearing in this proceeding.

¹⁴²Partial Stipulation at 38.

¹⁴³Partial Stipulation at 39 and Exhibit A, Exhibits KWSC Water 8.17 (Settlement), and KWSC Sewer 8.17 (Settlement).

on a two-year average 2013 and 2014 expenses (with the Honolulu CPI factor applied to 2013 expenses only).¹⁴⁴ The Parties also agreed to reduce this expense for adjustments relating to Makalei billings and removal of labor expense which had been agreed to by KWSC in response to information requests.¹⁴⁵

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total general and administrative expense of \$85,481 at present rates.

14.

Miscellaneous and Other

The Parties stipulated to a sum of \$9,494 in miscellaneous and other expense at present rates as follows:¹⁴⁶

Water operations	\$5,554
Sewer operations	\$3,940
Total	\$9,494

KWSC's miscellaneous and other expenses consist of expenses related to customer accounts and uncollectible

¹⁴⁴Partial Stipulation at 39.

¹⁴⁵Partial Stipulation at 39.

¹⁴⁶Partial Stipulation at 40 and Exhibit A, Exhibits KWSC Water 8.18 (Settlement), and KWSC Sewer 8.18 (Settlement).

accounts.¹⁴⁷ In its Application, KWSC calculated customer accounts expenses by taking a three-year average of recorded expenses from 2011-2013.¹⁴⁸ Uncollectible accounts expenses was estimated by calculating a percentage of bad debt.¹⁴⁹ Bad debt was calculated by taking the ratio of previous year write-off and previous year revenue - this percent was then multiplied by the proposed Test Year revenue.¹⁵⁰

As a result of settlement discussions, the Parties agreed to the following adjustments: (1) using a two-year average based on recorded costs for 2013 and 2014 (applying the Honolulu CPI factor to 2013 recorded expenses only);¹⁵¹ (2) adding back allocated expenses to their respective line items for 2013 and 2014; and (3) reducing the expense to reflect removal of labor expense which had been agreed to by KWSC in responses to information requests.¹⁵²

¹⁴⁷CA-T-2 at 47.

¹⁴⁸Partial Stipulation at 40.

¹⁴⁹Partial Stipulation at 40.

¹⁵⁰Partial Stipulation at 40.

¹⁵¹As mentioned above, due to an accounting change that occurred in 2013 that reclassified certain expenses to affiliated charges, this adjustment required the Parties to add back these allocated expenses to their respective line items for 2013 and 2014. CA-T-2 at 48.

¹⁵²Partial Stipulation at 40.

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these adjustments are reasonable, and approves the Parties' stipulated total miscellaneous and other expense of \$9,494 at present rates.

15.

Summary

The Parties have stipulated to a sum of \$3,420,291 in consolidated O&M expense at present rates, as follows:

Water Operations	\$2,556,132
Sewer Operations	\$864,159
Total	\$3,420,291

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that this amount, and the findings in this Order, are reasonable and approves the Parties' total stipulated O&M expenses for water and sewer operations.

F.

Non-Operations/Non-Maintenance Expenses

KWSC's non-operational/non-maintenance ("non-O&M") expenses consist of taxes other than income tax ("TOTIT"), income tax, depreciation, and amortization.

1.

Taxes Other Than Income Tax

KWSC's TOTIT consists of the: (1) State Public Company Service Tax ("PCS Tax") of 5.885%;¹⁵³ and (2) State Public Utility Fee ("PUC Fee") of 0.500%.¹⁵⁴

In the Partial Stipulation, the Parties did not agree to a TOTIT for proposed rates.¹⁵⁵ However, the commission notes that in their respective Post-Stipulation SOPs, both Parties have attached water and sewer operations schedules that reflect the same figures for TOTIT at present rates as follows:¹⁵⁶

	Revenues at Present Rates	PCS Tax (5.885%)	PUC Fee (0.500%)	Total
Water Operations	\$2,665,149	\$156,844	\$13,326	\$170,170
Sewer Operations	\$906,445	\$53,344	\$4,532	\$57,877
Total	\$3,571,594	\$210,188	\$17,858	\$228,047

¹⁵³See HRS Chapter 239.

¹⁵⁴See HRS § 269-30.

¹⁵⁵Partial Stipulation at 41.

¹⁵⁶KWSC SOP, Exhibit A, Schedules KWSC Water 8.19 and KWSC Sewer 8.19; CA SOP, CA-W-215 and CA-S-214.

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the above amounts for TOTIT are reasonable.

2.

Income Taxes

In the Partial Stipulation, the Parties did not agree to income taxes at present rates due to disagreement over one or more of the Outstanding Issues.¹⁵⁷ The commission's findings concerning the Outstanding Issues, and related adjustments thereto, as discussed infra, result in the following amounts for income tax at present rates:¹⁵⁸

	State Income Tax	Federal Income Tax	Total Income Taxes
Water Operations	(\$46,476)	(\$187,171)	(\$233,647)
Sewer Operations	(\$22,805)	(\$128,004)	(\$150,809)
Total	(\$69,281)	(\$315,175)	(\$384,456)

3.

Depreciation

The Parties were unable to agree on a Test Year average depreciation expense due to certain adjustments proposed by the

¹⁵⁷Partial Stipulation at 42.

¹⁵⁸Exhibits A-C to this Order.

Consumer Advocate.¹⁵⁹ Specifically, the Consumer Advocate recommended adjustments corresponding to its proposed adjustments to KWSC's rate base for excess capacity, assets that should have been capitalized instead of expensed, assets without adequate justification, and assets that will not be placed in service during the Test Year.¹⁶⁰

a.

Water Operations

The Consumer Advocate made adjustments to KWSC's water operations depreciation expense for: (1) excess capacity; (2) committed capacity to the Stroud and Robarts Properties; (3) committed capacity to the Makalei Property; and (4) removal of the RO Plant pipe replacement (which is not expected to be in place by the end of the Test Year).¹⁶¹

In its rebuttal testimony, KWSC stated that it agreed that its depreciation expense should be adjusted consistent with changes in the plant in-service items, but did not agree to all of

¹⁵⁹Partial Stipulation at 42.

¹⁶⁰Partial Stipulation at 42.

¹⁶¹CA-W-107.

the Consumer Advocate's adjustments.¹⁶² KWSC did not object to the removal of the RO Water Treatment Plant pipe replacement.¹⁶³

Based on the commission's findings concerning the Consumer Advocate's adjustments to KWSC's rate base, discussed infra at Section II.F., the commission accepts the Consumer Advocate's proposed adjustments, with the exception of the excess capacity adjustment. Accordingly, based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the depreciation expense, as reflected in the following chart, is reasonable:¹⁶⁴

Description	Depreciation Adjustment	Depreciation Balance 6/30/15
KWSC Depreciation Expense		\$529,729
CIAC Amortization		(\$114,725)
Adjusted Depreciation Balance		\$415,004
Consumer Advocate Adjustments		
Stroud and Robarts Properties	\$4,858	(\$4,858)
Makalei Property	\$30,210	(\$30,210)
RO Water Treatment Plant Pipe	\$1,096	(\$1,096)
Subtotal		(\$36,164)
Total		\$378,840

¹⁶²KWSC-RT-100 at 15.

¹⁶³KWSC-RT-400 at 15.

¹⁶⁴See CA-W-107 (modified).

b.

Sewer Operations

The Consumer Advocate made adjustments to KWSC's sewer operations depreciation expense for: (1) capitalizing the rebuilt Flygt pump; (2) removing the cost of a sewer treatment plant study (which was not expected to be completed during the Test Year); and (3) removing the cost of four of six stand-by generators purchased by KWSC for its pump stations.¹⁶⁵

The Parties agreed to exclude the 2013 cost of rebuilding the Flygt pump, and instead have agreed to include the 2011 cost of purchasing the Flygt pump, estimated at \$18,602.¹⁶⁶ The Parties also agreed to removing the cost of the sewer treatment plant study¹⁶⁷ and including the purchase cost of the six emergency generators.¹⁶⁸

¹⁶⁵See CA-S-107; see also, Partial Stipulation at 43-44 (describing the Consumer Advocate's proposed adjustments to KWSC's plant-in-service costs for its sewer operations).

¹⁶⁶Partial Stipulation at 45; see also, KWSC-RT-100 at 12 (stating that the value of purchasing the Flygt pump in 2011 was \$18,602).

¹⁶⁷Partial Stipulation at 43.

¹⁶⁸Partial Stipulation at 45. KWSC initially claimed that it had purchased seven stand-by generators, of which the Consumer Advocate argued that the cost of four should be removed from rate base. CA Direct Testimonies at CA-T-1 at 15. During settlement discussions, KWSC clarified that it had only purchased six stand-by generators. Partial Stipulation at 45. The Parties agreed to include the cost to purchase all six stand-by emergency generators in the Test Year rate base. Id.

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the Parties' agreements on these issues are reasonable and modifies the Consumer Advocate's proposed depreciation expense as follows:¹⁶⁹

Description	Depreciation Adjustment	Depreciation Balance 6/30/15
KWSC Depreciation Expense		\$413,252
CIAC Amortization		(\$152,817)
Adjusted Depreciation Balance		\$260,435
Consumer Advocate Adjustments		
Purchase of Flygt pump (2011)	\$3,720 ¹⁷⁰	\$3,720
Subtotal		\$3,720
Total		\$264,155

G.

Average Rate Base

The Parties stipulated to an average Test Year rate base balance, which is consistent with the commission's past practice.

KWSC's rate base balance consists of its net plant-in-service (i.e., the plant-in-service minus accumulated depreciation reserve); minus net CIAC, accumulated deferred state

¹⁶⁹See CA-S-107 (modified).

¹⁷⁰The commission notes that the Consumer Advocate calculated depreciation of the capitalized Flygt pump rebuild by using a depreciation rate of 20%. CA-S-107. The commission applies the same depreciation factor to calculate the depreciation for the 2011 purchase of the Flygt pump: $18,602 \times 0.2 = 3,720.4$ (rounded to 3,720).

and federal income taxes (collectively, "ADIT"), and the unamortized Hawaii General Excise Tax Credit ("HGETC"); plus working capital and a pro-ration of HWSC's general operations rate base.¹⁷¹

In general, the deductions from rate base represent funds provided by sources other than shareholders on which shareholders are not entitled to earn a return, while the addition to rate base represents funds supplied by KWSC's shareholders.

In addition, the Parties proposed a number of adjustments to KWSC's rate base, including: (1) an adjustment for excess capacity with respect to KWSC's water operations; (2) an adjustment for committed capacity with respect to KWSC's water operations reserved for Makalei; (3) an adjustment for committed capacity with respect to KWSC's water operations to "Other" properties, including the West Hawaii Veterans Cemetery ("WHVC"), the Stroud Property, and the Robarts Property; and (4) a true-up adjustment to reflect corrections to capacity adjustments that had previously been made by KWSC's predecessor (KUC) in its previous rate case in Docket No. 2007-0198.¹⁷²

In the Partial Stipulation, the Parties resolved the adjustments for committed capacity to Makalei, the WHVC, and the

¹⁷¹Application, Exhibit KWSCT-T-100 at 8.

¹⁷²Partial Stipulation at 46-49.

Robarts Property.¹⁷³ The Parties have not agreed on the rate base adjustments concerning: (1) excess capacity for KWSC's water operations; (2) KWSC's committed capacity to the Stroud Property for water operations; and (3) the true-up based on corrections to capacity adjustments for water and sewer operations since KUC's last rate case. These comprise a majority of the Outstanding Issues identified by the Parties in the Partial Stipulation.¹⁷⁴

Because a number of the rate base factors rely on the determination of these adjustments, the commission will first address these disputed adjustments to KWSC's rate base.

1.

Excess Capacity Adjustment to KWSC's Water Operations

The Parties disagree over the method of calculating the excess capacity, if any, in KWSC's water operations for the Test Year.¹⁷⁵

¹⁷³Partial Stipulation at 46-48.

¹⁷⁴See Partial Stipulation at 1-2; see also, Section II.A., supra.

¹⁷⁵See generally, KWSC SOP at 2-3 and CA SOP at 6-8.

a.

The Consumer Advocate

The Consumer Advocate proposed an excess capacity calculation based on the balance of KWSC's water system capacity remaining after accounting for the capacity required for current customers.¹⁷⁶ The Consumer Advocate defined "excess capacity" as a facility's remaining available capacity that is not expected to be used and useful to provide utility service during the test year.¹⁷⁷ According to the Consumer Advocate, determining excess capacity is critical in deriving a utility's rate base because rates are established on the projected rate base for the test year, and if there is excess capacity in the facility, the amount of rate base used to compute rates will be too high.¹⁷⁸

The Consumer Advocate estimated that excess capacity represented 26.21% of KWSC's water system during the Test Year.¹⁷⁹ The Consumer Advocate determined excess capacity by using the same method that was used in KUC's (KWSC's predecessor) last rate case,

¹⁷⁶CA-T-1 at 20-21.

¹⁷⁷CA-T-1 at 18.

¹⁷⁸CA-T-1 at 18.

¹⁷⁹CA-T-1 at 21 and CA-W-112.

Docket No. 2007-0198.¹⁸⁰ The Consumer Advocate maintained that this adjustment is reasonable in this docket because KWSC has not added significantly more customers to its Test Year average customer count in the intervening years between rate proceedings.¹⁸¹

b.

KWSC

KWSC stated that there is no excess capacity in its water operations.¹⁸² Specifically, KWSC argued that: (1) the Consumer Advocate's use of average day demand to calculate "excess capacity" is not consistent with water system design standards; (2) it is unreasonable for the Consumer Advocate to apply a single "excess capacity" factor to the entire water system; (3) the Consumer Advocate's application of the settlement calculation from KUC's last rate case lacks justification and is

¹⁸⁰CA SOP at 6 and 8. The Consumer Advocate noted that this method for calculating excess capacity was also used in in Docket No. 2008-0109 (where KWSC sought approval to purchase the utility operations from KUC) and Docket No. 2010-0180 (where KWSC sought approval to expand its service territory to include the WHVC). CA SOP at 9.

¹⁸¹CA SOP at 8 (footnote omitted).

¹⁸²KWSC SOP at 2.

unfair to KWSC; and (4) overstating "excess capacity" is poor public policy.¹⁸³

KWSC further asserted that the Consumer Advocate's determination of an "excess capacity" factor based on Average Daily Demand ("ADD") is flawed because it does not consider the fact that water facilities (including treatment, storage, transmission, distribution, and production facilities) must be sized to meet peak day customer demands, not average day customer demands.¹⁸⁴ KWSC argued that if it constructed its water facilities to only meet ADD, it would not be able to meet customer demands on any above-average day.¹⁸⁵ KWSC stated that this is unreasonable for any utility, but especially so for KWSC, whose peak day demands occur during holiday periods when the residents of Kukio return to the resort for their vacation stays.¹⁸⁶

KWSC noted that the Consumer Advocate, in CA-W-112, compared the actual water capacity available for sale to the average daily sales by customers and presents a table, shown below,

¹⁸³KWSC SOP at 4-11.

¹⁸⁴KWSC SOP at 4.

¹⁸⁵KWSC SOP at 4.

¹⁸⁶KWSC SOP at 4.

showing the Consumer Advocate's calculations in CA-W-112, revised to reflect updates to certain numbers in this proceeding:¹⁸⁷

1	Well Capacity	2.46 MGD ¹⁸⁸	
2	Less Committed Capacity	<u>-0.645 MGD</u>	Makalei and Robarts Properties
3	Net Capacity	1.815 MGD	
4	Water Used in Reverse Osmosis Process	<u>-0.78 MGD</u>	Based on 56.95% Efficiency
5	Water Leaving the Plant	1.034 ¹⁸⁹ MGD	
6	Unaccounted for Water	<u>-0.10 MGD</u>	Consumer Advocate Inputted Amount
7	Water Available for Sale	0.93 MGD	
8	Total Water Sales in Test Year	219.25 Million Gallons	
9	Number of Days in Test Year	365 Days/Year	
10	Average Daily Sales in Test Year	0.60 MGD	Line 8/Line 9
11	Consumer Advocate's Used Capacity	64.81% ¹⁹⁰	Line 10/Line 7
12	Consumer Advocate's Unused Capacity	35.19% ¹⁹¹	[100%] - Line 11

¹⁸⁷KWSC SOP at 4-5.

¹⁸⁸MGD stands for million gallons per day.

¹⁸⁹The commission notes that $1.815 - 0.78 = 1.035$. However, the commission finds the difference of 0.001 in these circumstances to be a minor discrepancy (possibly due to rounding) which does not affect the reasonableness of KWSC's argument.

¹⁹⁰The commission notes that $(0.60/0.93) \times 100 = 64.52\%$. However, the commission finds that the difference of 0.29% in these circumstances to be a minor discrepancy (possibly due to rounding) which does not affect the reasonableness of KWSC's argument.

¹⁹¹In its Direct Testimonies, the Consumer Advocate calculated excess capacity for KWSC's water operations for the Test Year at 26.21%. CA-T-1 at 21; see also, CA-W-112. In its Rebuttal Testimonies, KWSC stated that CA-W-112 actually reflected an excess capacity adjustment of 35.19% after the Consumer Advocate's adjustments for committed capacity.

KWSC stated that while it does not disagree with lines 1 through 7 of the Consumer Advocate's calculations, it disagrees with the Consumer Advocate's methodology used to calculate lines 11 and 12.¹⁹²

According to KWSC, water system design standards require consideration of peak demand.¹⁹³ KWSC stated that peak day demand can either be determined by actual operating history or design standards.¹⁹⁴ KWSC provided a graph showing a comparison of actual customer daily demand in 2014, the Consumer Advocate's proposed average day demand, and KWSC's proposed max day demand, as shown below:¹⁹⁵

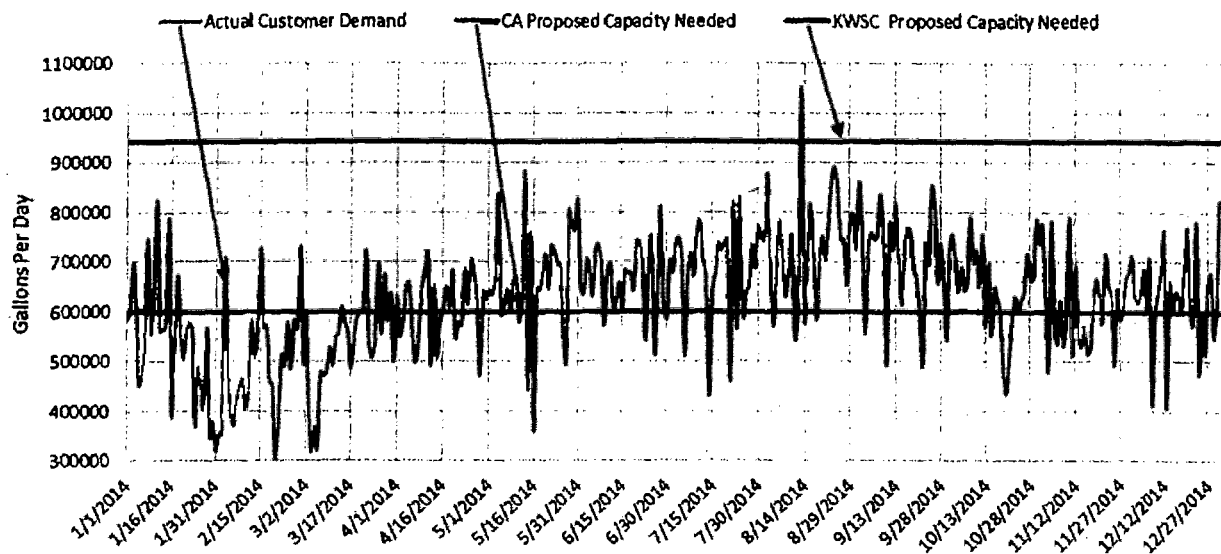
KWSC-RT-400 at 4. For purposes of illustrating KWSC's position on the Consumer Advocate's excess capacity methodology, this distinction is not important.

¹⁹²KWSC SOP at 5.

¹⁹³KWSC SOP at 5.

¹⁹⁴KWSC SOP at 5.

¹⁹⁵KWSC SOP at 6.



KWSC stated that the graph above clearly shows why the Consumer Advocate's proposed methodology of using average daily sales to compute "excess capacity" is not appropriate and would lead to severe and frequent water shortages for the Kukio community.¹⁹⁶ KWSC observed that in 2014 there would have been almost 200 days that the wells and the RO Water Treatment Plant¹⁹⁷ would not have been able to meet daily demand if they have been sized at 0.6 MGD.¹⁹⁸ KWSC further observed that the same is true for 2013, as actual 2013 data shows that the ADD was 0.629 MGD and the Maximum Daily Demand ("MDD") was 0.949 MGD.¹⁹⁹

¹⁹⁶KWSC SOP at 6.

¹⁹⁷According to KWSC, water is treated at the RO Water Treatment Plant before it is delivered to customers. KWSC SOP at 12.

¹⁹⁸KWSC SOP at 5.

¹⁹⁹KWSC SOP at 5, fn 6.

Alternatively, KWSC stated that a typical water system design standard used to calculate necessary capacity is a peaking demand factor (i.e. MDD) of 1.5 times ADD.²⁰⁰ KWSC submitted that if the MDD factor of 1.5 x ADD is substituted for ADD in the calculation of "excess capacity" under the methodology presented in CA-W-112 (updated), the result is also no excess capacity.²⁰¹

In support of this proposition, KWSC provided the following table:²⁰²

1	Well Capacity	2.46 MGD	
2	Less Committed Capacity	<u>-0.645 MGD</u>	Makalei and Robarts Properties
3	Net Capacity	1.815 MGD	
4	Water Used in RO Process	<u>-0.78 MGD</u>	Based on 56.95% Efficiency
5	Water Leaving the Plant	1.034 MGD	
6	Unaccounted for Water	<u>-0.10 MGD</u>	Consumer Advocate Imputed Amount
7	Water Available for Sale	0.93 MGD	
8	Total Water Sales in Test Year	219.25 Million Gallons	
9	Number of Days in Test Year	365 Days/Year	
10	Average Daily Sales in Test Year	0.60 MGD	Line 8/Line 9
11	MDD	0.90 MGD	Line 10 x 1.5
12	Used Capacity	96.7%	Line 11/Line 7
13	Unused Capacity	3.3%	1 - Line 12

²⁰⁰KWSC SOP at 6.

²⁰¹KWSC SOP at 7.

²⁰²KWSC SOP at 7.

Furthermore, KWSC noted that in WHUC's most recent rate case, the Consumer Advocate evaluated capacity based on the plant's ability to meet peak day demands, not ADD.²⁰³ KWSC also observed that it applied a similar analysis in the instant rate case to explain why there is no excess capacity in the sewer treatment plant, and that the Consumer Advocate did not challenge KWSC's position or recommend an excess capacity adjustment.²⁰⁴

KWSC also argued that the Consumer Advocate's application of a single excess capacity factor to the entire water system is unreasonable.²⁰⁵ KWSC observed that the Consumer Advocate did not offer any justification for making any excess capacity adjustments to many of the water system facilities, all of which are required to operate the water system and serve existing users.²⁰⁶

²⁰³KWSC SOP at 7. See also, Partial Stipulation of the Parties for Full Settlement, filed on March 18, 2014, in Docket No. 2011-0331, at 51-53.

²⁰⁴KWSC SOP at 7-8.

²⁰⁵KWSC SOP at 8.

²⁰⁶KWSC SOP at 9. For example, KWSC notes that the Consumer Advocate applied an across-the-board excess capacity adjustment to the supervisory control and data acquisition ("SCADA") equipment, but did not present any testimony or evidence that any portion of the SCADA equipment is not required to serve existing customers. Id. (citing KWSC-RT-400).

KWSC did note that the Consumer Advocate provided excess capacity analyses for the RO Water Treatment Plant and wells. KWSC SOP at 9. KWSC argued that the Consumer Advocate's analyses are flawed, and that there is no excess capacity in the RO plant

Regarding the excess capacity adjustment from KUC's prior rate case, Docket No. 2007-0198, KWSC argued that it was a product of a settlement and is not a precedent for this proceeding.²⁰⁷

Finally, KWSC observed that in this rate case, as well as in rate cases of KWSC's affiliates, the Consumer Advocate has recommended excess capacity adjustments to remove from rate base any capacity that is not immediately required for existing ratepayers.²⁰⁸ KWSC asserted that this overstates excess capacity, which promotes poor public policy because: (1) it may result in poor operating decisions by incentivizing utilities to delay construction of facilities needed to meet peak demands; (2) it may cause utilities to make decisions about construction of facilities that are not the most cost-efficient in the long run;²⁰⁹ (3) it fails to recognize that many facilities must be built in step increments that never exactly match the capacity used by

or wells. KWSC SOP at 11-18. However, as the Consumer Advocate stated in its Direct Testimonies that it was not calculating excess capacity for KWSC's water system based on its RO Water Treatment Plant and well calculations, the commission declines to address these arguments in this Order. See CA-T-1 at 20.

²⁰⁷KWSC SOP at 9.

²⁰⁸KWSC SOP at 10.

²⁰⁹For example, KWSC offers that a utility faced with an excess capacity reduction will have an incentive to construct facilities in multiple, smaller increments that may ultimately be more costly. KWSC SOP at 10.

existing customers; and (4) it fails to recognize that utilities must build facilities to meet projected growth, and that given the long lead time required for planning, permitting, and constructing water and sewer facilities, it is often not possible to precisely match capacity to actual customer growth.²¹⁰

c.

Findings and Conclusions

The commission concludes that the Consumer Advocate's excess capacity adjustment to KWSC's water operations is not justified. The commission observes that ADD is not representative of the capacity that KWSC must have in its system to service its customers. Rather, KWSC must have enough capacity to serve the highest or maximum daily demand.

The commission observes that actual customer data from 2014 indicates that under the Consumer Advocate's calculations (based on ADD), KWSC's water system capacity would be operating significantly below customer demand and would lead to severe and frequent water shortages in the Kukio community.²¹¹ The commission agrees with KWSC that excess capacity should be determined by peak system demands, rather than average daily demands, to ensure that

²¹⁰KWSC SOP at 10-11.

²¹¹See KWSC SOP at 6; see also, section II.G.1.b, supra.

the system is capable of providing reliable service to consumers. Accordingly, based on the 2014 data provided by KWSC, the commission concludes that there is no excess capacity in KWSC's water system.

Alternatively, the commission finds that absent actual customer data regarding MDD, MDD can be calculated by multiplying the ADD by a factor of 1.5. The commission notes that this formula is approved by the Hawaii State Water System Standards.²¹² Applying this formula to the Consumer Advocate's estimated ADD, the commission finds that there is no excess capacity.²¹³

The commission is not persuaded by the Consumer Advocate's reliance on the commission's decision in Docket No. 2007-0198. The commission observes that the decision regarding the excess capacity adjustment in Docket No. 2007-0198 was the result of a settlement between the parties, and not a decision by the commission based on the merits of the methodology,²¹⁴ and that the commission expressly stated in that decision and order that "the commission's approval of the Parties'

²¹²Water System Standards, Section 111.05, Table 100-20.

²¹³See KWSC SOP at 7. While this methodology still results in an "unused capacity" of 3.3%, *id.*, the commission finds that this amount is negligible, and does not justify an excess capacity adjustment to rate base.

²¹⁴Proposed Decision and Order No. 23975 ("Order No. 23975"), filed January 18, 2008, Docket No. 2007-0198, at 35-36.

Partial Stipulation, and of the methodologies used herein, may not be cited as precedent by any parties in any future commission proceeding."²¹⁵ Given the actual customer data demonstrating that application of the Docket No. 2007-0198 methodology based on ADD would result in severe and frequent water shortages to KWSC's customers, there is no justification for applying Docket No. 2007-0198's excess demand methodology to this proceeding.

2.

Committed Capacity Adjustment to
KWSC's Water Operations for the Stroud Property

The Parties disagree over whether there should be an adjustment for committed capacity for the Stroud Property for KWSC's water operations for the Test Year.²¹⁶ Pursuant to an agreement made by KWSC's predecessor, KWSC is obligated to provide up to 15,000 gpd from its system to the Stroud Property.²¹⁷

²¹⁵Order No. 23975 at 40.

²¹⁶See generally, KWSC SOP at 22-23 and CA SOP at 14-16.

²¹⁷Application, Exhibit KWSC-T-600 at 15.

a.

The Consumer Advocate

The Consumer Advocate asserted that there should be a downward adjustment to KWSC's rate base to account for the 15,000 gpd that KWSC is committed to provide to the Stroud Property.²¹⁸ The Consumer Advocate argues that this committed capacity is excess capacity that is not currently required to provide service to present KWSC customers, and that if no adjustment is made, present customers will be paying for infrastructure to provide service to future customers.²¹⁹ While the Consumer Advocate acknowledged that KWSC currently serves one customer at the Stroud Property,²²⁰ the Consumer Advocate argued that there are still up to four separate lots that are not receiving water service from KWSC.²²¹

Absent evidence showing that the Stroud Property commitment of 15,000 gpd is being provided by KWSC in its

²¹⁸See CA-T-1 at 26. The Consumer Advocate argued that there should be a committed capacity adjustment for both the Stroud and Robarts Properties. Following the Consumer Advocate's direct testimony, the Parties agreed to incorporate an adjustment for the Robarts Properties, leaving only the adjustment for the Stroud Property in contention. See Partial Stipulation at 48.

²¹⁹CA-T-1 at 26-27.

²²⁰CA SOP at 14.

²²¹CA SOP at 14-15. Per KWSC, the Stroud Property is subdivided into five separate lots. Application, Exhibit KWSC-T-600 at 15.

entirety during the Test Year, the Consumer Advocate argued that an adjustment must be made to KWSC's rate base.²²² Specifically, the Consumer Advocate proposed an adjustment of \$49,739 to account for the excess capacity connected to KWSC's commitment to serve the Stroud Property during the Test Year.²²³

b.

KWSC

KWSC argued that an adjustment for the Stroud Property is not appropriate. In its Rebuttal Testimonies, KWSC stated:

The Stroud Property is a part of KWSC's certified service area, and KWSC is currently serving a customer on the Stroud Property. In this rate case, a customer on the Stroud Property is included in KWSC's and the Consumer Advocate's customer counts. Accordingly, revenues associated with the customer are projected in this rate setting proceeding. Therefore, KWSC does not believe that capacity associated with the Stroud property should be excluded from rate base as "committed capacity."²²⁴

²²²CA SOP at 15.

²²³CA SOP at 16.

²²⁴KWSC-RT-500 at 7; see also, KWSC SOP at 23.

c.

Findings and Conclusions

The commission concludes that the Consumer Advocate's adjustment for the Stroud Property is appropriate under the circumstances present here. The commission observes that at the time the Application was filed, the development of the Stroud Property had not started and no water was being provided.²²⁵ KWSC bears the burden of proof to demonstrate that the costs associated with the Stroud Property should be included in its rate base, and, under the circumstances, has failed to provide sufficient information demonstrating that the committed capacity to the Stroud Property is presently used and useful for public utility purposes.

While KWSC states that it has since begun providing water services to a customer on one of the five lots on the Stroud Property,²²⁶ KWSC has failed to provide information regarding the nature and amount of this service. For example, KWSC did not submit any information regarding the quantity of water services it is providing to the Stroud Property, the estimated timeframe for completion of service to the remaining lots, or whether the Stroud Property is expected to utilize

²²⁵Application, Exhibit KWSC-T-600 at 15.

²²⁶KWSC-RT-500 at 7.

the entire 15,000 gpd of committed capacity in the near future (i.e., before KWSC's next rate case). It appears KWSC has only recently begun serving one out of five lots, and it is unclear whether the entire 15,000 gpd commitment is being provided to that single lot.

The commission further observes that pursuant to Section 7 of the Option Agreement to Purchase Portion of Stroud Property, KWSC is obligated to provide the Stroud Property with up to 15,000 gpd.²²⁷ Accordingly, this capacity is reserved exclusively for the Stroud Property and cannot be used to service other KWSC customers in the event of a water system shortage.²²⁸ Given the uncertainty regarding the actual use of the committed capacity to the Stroud Property, an adjustment to rate base is appropriate to account for the 15,000 gpd of capacity that is solely committed to the Stroud Property.²²⁹

²²⁷Application, Exhibit KWSC-T-600 at 15 FN14.

²²⁸See e.g., CA SOP at 16.

²²⁹The commission clarifies that this finding is distinct from its preceding finding concerning excess capacity. As discussed above, system-wide excess capacity is determined by calculating the balance of KWSC's water system capacity remaining after accounting for the capacity required by current customers (based on peak demand). Like the capacity required by current customers, KWSC's committed capacity to the Stroud Property is not discretionary - KWSC is contractually obligated to provide a set amount of water service to the Stroud Property. Thus, the Stroud Property's committed capacity does not represent "excess" in the water system, as none of the committed capacity - whether used or not - is available to KWSC's other customers.

In future filings, if KWSC can provide more evidence concerning the amount and nature of its water service to the Stroud Property, the commission is open to revisiting this issue.

Based on the above, and its review of the entire record, the commission concludes that an adjustment of \$49,739 for the committed capacity to the Stroud Property is reasonable.

3.

True-Up Adjustment to KWSC's Water and Sewer Operations

KWSC's predecessor, KUC, had an agreement under which it was obligated to provide up to 627,200 gpd to the Makalei Property.²³⁰ This obligation was deemed to be committed capacity, and an adjustment was made to rate base.²³¹ The Parties have agreed to continue this adjustment for the Makalei Property in this proceeding.²³² However, KWSC has learned that there was a mistake in the calculation of the Makalei committed capacity in KUC's last rate case (Docket No. 2007-0198).²³³ KWSC explained that KUC erroneously included certain transmission facilities in its calculation of the Makalei Property committed capacity

²³⁰Application, Exhibit KWSC-T-600 at 11.

²³¹Application, Exhibit KWSC-T-600 at 11.

²³²Partial Stipulation at 46-47.

²³³KWSC SOP at 18.

adjustment that should have been excluded because those transmission facilities do not serve the Makalei Property.²³⁴ KWSC also explained that the sewer treatment plant's capacity was incorrectly shown as 150,000 gpd in Docket No. 2007-1098, when it should have been 100,000 gpd, resulting in an excess capacity adjustment.²³⁵

a.

The Consumer Advocate

The Consumer Advocate stated that these errors, which increased the downward adjustment to KUC's rate base, had the result of lowering the overall purchase price of KUC to KWSC.²³⁶ The Consumer Advocate thus argued that if a downward adjustment to rate base is not made now, KWSC will benefit a second time in the form of an increased rate base, to the detriment of consumers, who will experience higher bills.²³⁷ The Consumer Advocate stated that a true-up adjustment of \$1,846,572 is appropriate, consisting of \$1,052,368 to water operations to account for the excluded

²³⁴CA SOP at 17.

²³⁵CA SOP at 17.

²³⁶CA SOP at 18.

²³⁷CA SOP at 18.

transmission facilities and \$794,204 to sewer operations for the overstated sewer treatment plant capacity.²³⁸

The Consumer Advocate argued that its proposed true-up simply recognizes a corrected capacity adjustment that should have been applied when KWSC acquired KUC's assets in Docket No. 2008-0109. According to the Consumer Advocate, had these corrections been raised in Docket No. 2008-0109, KWSC would have paid the "full" price for KUC.²³⁹ Thus, the Consumer Advocate disagreed with KWSC that the true-up represents an "acquisition discount adjustment," as it simply reflects the status quo that should have been applied in Docket No. 2008-0109.²⁴⁰

The Consumer Advocate acknowledged that KWSC customers have realized a benefit from these errors in the form of lower rates (as KUC/KWSC's rate base was lower than it should have been).²⁴¹ However, the Consumer Advocate maintained that a true-up is necessary, because it appears the KWSC will benefit twice - first, by paying a lower purchase price, and second, by benefiting from an increase rates in this proceeding, which will

²³⁸CA SOP at 17-18.

²³⁹CA SOP at 21.

²⁴⁰CA SOP at 21-22.

²⁴¹CA-T-1 at 30.

result in higher charges to customers.²⁴² The Consumer Advocate cautioned against setting an undesirable precedent where, if erroneous information is relied upon to execute a transaction where the utility can essentially recover the costs associated with that error, ratepayers are then burdened with management's mistake.²⁴³

The Consumer Advocate has clarified that it recommends that the true-up adjustment be amortized over the remaining life of the subject assets (i.e., the water transmission plant and the sewer treatment facility).

b.

KWSC

KWSC argued that the true-up adjustment is an acquisition discount adjustment, which has historically been found inequitable by the commission.²⁴⁴ In support, KWSC quoted language from the commission's decision in a prior docket:

. . . the Consumer Advocate believes that all other things being held equal, a discount of the cost of the property when originally put into public service provides no less benefit to ratepayers. The discount merely represents a change in ownership without any decrease in

²⁴²CA-T-1 at 31.

²⁴³CA SOP at 22.

²⁴⁴KWSC SOP at 19 (citing In re Puhi Sewer & Water Co., Inc. and Aqua Puhi, Inc., Docket No. 2013-0131 (the "Puhi Case")).

service function to rate payers. That is, "if a utility company cannot recover more than the remaining net book value of the assets when that utility company is acquired for more than that value, it is not equitable to have discounts used to write down the value of the remaining net book value of the assets."²⁴⁵

KWSC also noted that its customers have benefited from the decrease in rate base, and that the true-up adjustment would unjustly benefit customers by passing on the purchase price discount on to them.²⁴⁶

Finally, KWSC argued that its customers have benefitted from several other adjustments to KWSC's rate base since KUC's last rate case.²⁴⁷ For example, over the seven year period since it purchased KUC's utility operations, KWSC's book depreciation expenses have exceeded the expense approved in KUC's prior rate case and included in KWSC's present rates.²⁴⁸ In addition, KWSC argued that it has lost out on depreciation on the Makalei committed capacity that was erroneously excluded from rate base.²⁴⁹

²⁴⁵KWSC SOP at 19-20 (citing Decision and Order No. 32519, filed December 11, 2014, in Docket No. 2013-0131, at 31) (emphasis in the original).

²⁴⁶KWSC SOP at 21.

²⁴⁷KWSC SOP at 21.

²⁴⁸KWSC SOP at 21.

²⁴⁹KWSC SOP at 21.

KWSC claimed that these losses exceed the Consumer Advocate's true-up amount by more than \$1.5 million.²⁵⁰

Accordingly, KWSC maintains that no true-up adjustment should be made.

c.

Findings and Conclusions

The commission concludes that a true-up adjustment is appropriate under the circumstances, although not entirely for the reasons offered by the Consumer Advocate.

The commission notes that it approved KWSC's purchase of KUC in Docket No. 2008-0109 based, in part, on the proposed sale of assets being "reasonable and consistent with the public interest," i.e., it "will not adversely affect the . . . [utility's] fitness, willingness, and ability to provide public utility service in the State as authorized in its CPCN."²⁵¹ The commission noted that KWSC agreed to adopt KUC's tariff at the time and not to increase the rates charged to KUC's customers.²⁵² Similarly, the commission notes that the Consumer Advocate, in its Statement of Position in Docket No. 2008-0109,

²⁵⁰KWSC SOP at 21.

²⁵¹KUC Acquisition Order at 16-17.

²⁵²KUC Acquisition Order at 19.

recommended approval of KWSC's acquisition of KUC based, in part, on KWSC's agreement to adopt KUC's existing tariff without any change in rates.²⁵³

These representations were based on the information provided at the time - i.e., the erroneous information regarding the adjustments for the Makalei Property. Had the correct information been provided in Docket No. 2008-0109, it may have impacted the Parties' position and/or the commission's decision.

Correcting errors warrants examination where it results in detriment to ratepayers. Here, the amount of the adjustment is substantial, and the commission cannot ignore the impact to ratepayers, who will be impacted by the increase to KWSC's rate base in the form of higher rates. The commission concludes that KWSC should not be allowed to make these corrections to its rate base without any off-setting adjustments to lessen the impact to its customers. To permit otherwise would result in a negative impact to ratepayers.

While KWSC's customers may have benefited from the errors in the form of decreased rates, the commission notes that KWSC also benefited in the form of a reduced purchase price. Balancing the equities of the situation, the commission finds that

²⁵³See "Division of Consumer Advocacy's Statement of Position," filed October 15, 2008, in Docket No. 2008-0109, at 21.

KWSC, who was a party in Docket No. 2008-0109 and bore the burden of proof to provide accurate information, should bear responsibility for the errors in its rate base calculations.

The commission disagrees with KWSC that the true-up adjustment constitutes an acquisition discount in this situation. In support of its argument, KWSC cites to the Puhi Case.²⁵⁴ However, unlike the parties in the Puhi case, the "acquisition discount" here is not intentional, but rather, a product of error and mistake. In the Puhi Case, the parties had full knowledge of Puhi's value, including its rate base and net book value, and presumably negotiated the purchase price based on this knowledge. Conversely, in Docket No. 2008-0109, KWSC and KUC apparently negotiated the purchase price with less than full knowledge - i.e., without proper knowledge of KUC's rate base. This apparently resulted in an unexpected windfall to KWSC in the form of a reduced purchase price. KWSC now stands to gain an additional benefit, in the form of an increased rate base (and corresponding rate increase).

Essentially, the acquisition discount in the Puhi Case was the result of a full appraisal of Puhi's assets, including its net book value and rate base. The parties there presumably incorporated all of these factors into reaching the purchase price.

²⁵⁴KWSC SOP at 19.

Conversely, in Docket No. 2008-0109, KUC was acquired by KWSC for less than its true value due to errors in calculating KUC's rate base adjustments. The Consumer Advocate has estimated that the value of these errors is approximately \$1.8 million.²⁵⁵ It is likely that had KUC and KWSC known of this \$1.8 million difference, they would have negotiated KUC's purchase price differently in Docket No. 2008-0109.

Accordingly, the commission concludes that a true-up adjustment of (\$1,846,572), consisting of (\$1,052,368) for water operations and (\$794,204) for sewer operations, as recommended by the Consumer Advocate, should be applied to KWSC's rate base.²⁵⁶ The commission also concludes that the Consumer Advocate's recommendation that the true-up adjustment be amortized over the remaining life of the assets is reasonable. Finally, the commission observes that its findings and conclusions here are limited to the specific facts in this proceeding.

²⁵⁵CA SOP at 17-18.

²⁵⁶See CA SOP at 17-18 (recommending a \$1,052,368 adjustment for the water transmission facilities being removed from the Makalei Property, and a \$794,204 adjustment for the elimination of the sewer treatment excess capacity).

Net Plant-in-Service

In general, plant-in-service represents shareholder funds used to purchase utility assets, otherwise referred to as shareholder investments.²⁵⁷ KWSC's plant-in-service was based on recorded plant for the period ending June 30, 2013. Utility plant acquired or constructed during the period from July 1, 2013, through June 30, 2014, was added, and any assets removed from service during the same period were deducted. The estimated cost of plant expected to be in service during the Test Year was added and any expected retirements were deducted.²⁵⁸

Net plant-in-service is computed by taking plant-in-service and subtracting accumulated depreciation. Accumulated depreciation was based on the recorded June 30, 2013, depreciation balance, to which depreciation accruals were then added.²⁵⁹

The Parties agreed to the following net plant-in-service balances for water operations:

²⁵⁷CA-T-1 at 11.

²⁵⁸Application, Exhibit KWSC-T-100 at 8-9.

²⁵⁹Application, Exhibit KWSC-T-100 at 9.

	Test Year Average
Plant-in-service	\$20,115,573 ²⁶⁰
Accumulated depreciation	(\$5,980,770) ²⁶¹
Net plant-in-service	\$14,134,803 ²⁶²

The Parties agreed to the following net plant-in-service balances for sewer operations:

	Test Year Average
Plant-in-service	\$15,824,205 ²⁶³
Accumulated depreciation	(\$3,719,304) ²⁶⁴
Net plant-in-service	\$12,104,901 ²⁶⁵

²⁶⁰Partial Stipulation at 43; see also, CA SOP, Exhibit CA-W-103 and KWSC SOP, Exhibit A, Schedule KWSC Water 7.

²⁶¹See CA SOP, Exhibit CA-W-103 and KWSC SOP, Exhibit A, Schedule KWSC Water 7 (the commission notes that there is a discrepancy of \$1 between the Consumer Advocate's exhibit and KWSC's exhibit; however, the commission finds this amount to be negligible).

²⁶²See CA SOP, Exhibit CA-W-103 and KWSC SOP, Exhibit A, Schedule KWSC Water 7.

²⁶³Partial Stipulation at 45; see also, CA SOP, Exhibit CA-S-103 and KWSC SOP, Exhibit A, Schedule KWSC Sewer 7 (the commission notes that there is a discrepancy of \$1 between the Consumer Advocate's exhibit and KWSC's exhibit; however, the commission finds this amount to be negligible).

²⁶⁴CA SOP, Exhibit CA-S-103, and KWSC SOP, Exhibit A, Schedule KWSC Sewer 7 (the commission notes that there is a discrepancy of \$1 between the Consumer Advocate's exhibit and KWSC's exhibit; however, the commission finds this amount to be negligible).

²⁶⁵CA SOP, Exhibit CA-S-103 and KWSC SOP, Exhibit A, Schedule KWSC Sewer 7.

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these amounts are reasonable, and thus approves the Parties' stipulated net plant-in-service Test Year averages.

5.

Net Contributions-in-Aid-of-Construction

In general, contributions-in-aid-of-construction ("CIAC") refers to "money or property a developer or customer contributes to fund a utility capital project."²⁶⁶

The Parties agreed to the following Test Year average net CIAC:²⁶⁷

	Test Year Average
Water Operations	(\$4,368,561)
Sewer Operations	(\$5,893,182)
Total	(\$10,261,743)

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these amounts are reasonable, and thus approves the Parties' stipulated net CIAC Test Year averages.

²⁶⁶Proposed Decision and Order No. 31760, filed December 23, 2013, in Docket No. 2011-0148, at 45.

²⁶⁷Partial Stipulation at 49.

Accumulated Deferred Income Taxes

As previously explained by the commission:

ADIT [accumulated deferred income taxes] represents the difference between the amount of income tax expense reported for book (i.e., ratemaking) and for tax purposes. In general, a regulated entity calculates and reports book depreciation expenses on a straight-line basis (i.e., straight-line depreciation), but for tax purposes, the regulated entity may write-off the same asset on an accelerated basis, i.e., accelerated depreciation. The difference in tax liabilities calculated for book and tax purposes, respectively, generates deferred income taxes. Thus, the regulated entity must pass onto its ratepayers the tax benefits received as a result of the accelerated tax depreciation practices. For ratemaking purposes, the ADIT is reflected as a reduction to rate base.²⁶⁸

In the Partial Stipulation, the Parties stated that they were not able to reach an agreement regarding the determination of ADIT (state and federal).²⁶⁹ However, in their respective Statement of Position on Outstanding Issues, their attached exhibits reflect an agreement on the KWSC's ADIT averages for the Test Year:

²⁶⁸Decision and Order No. 24085 ("Order No. 24085"), filed March 10, 2008, in Docket No. 2006-0409, at 38 (citing Docket No. 2006-0396, Decision and Order No. 23714 at 50).

²⁶⁹Partial Stipulation at 50.

	State ADIT	Federal ADIT	Total
Water Operations	(\$213,507) ²⁷⁰	(\$1,360,514) ²⁷¹	(\$1,574,021)
Sewer Operations	(\$154,861) ²⁷²	(\$166,418) ²⁷³	(\$321,279)
Total	(\$368,368)	(\$1,526,932)	(\$1,895,300)

²⁷⁰The Parties appear to have agreed on this number, but some clarification for the record is necessary. In its Direct Testimonies, the Consumer Advocate stated that it was seeking State ADIT for KWSC's water operations based on the following: (\$221,873) as of June 30, 2014, and (\$205,141) as of June 30, 2015. CA-T-1 at 35. The average of these two figures is (\$213,507).

In its Rebuttal Testimonies, KWSC stated that it agreed with the Consumer Advocate's recommendation of a Test Year average of (\$213,507) for State ADIT for water operations. KWSC-RT-100 at 16-17.

However, the Consumer Advocate attached an exhibit that listed "(\$205,551)" for State ADIT as of June 30, 2015. CA SOP, Exhibit CA-W-103. This caused the State ADIT Test Year average to shift from (\$213,507) to (\$213,712). Id.

KWSC, in its Statement on the Outstanding Issues, listed (\$213,508) as the average State ADIT for the Test Year. KWSC SOP, Exhibit A, Schedule KWSC Water 7.

Based on the Consumer Advocate's Direct Testimonies, KWSC's Rebuttal Testimonies, and KWSC's SOP, the commission assumes that the Consumer Advocate's use of "(\$205,551)" in its SOP was a typographical error, as the record indicates that the Parties had agreed to an average State ADIT for water operations of (\$213,507), and there is nothing in the record that supports the figure of (\$205,551).

²⁷¹KWSC SOP, Exhibit A, Schedule KWSC Water 7 and CA SOP, Exhibit CA-W-103.

²⁷²KWSC SOP, Exhibit A, Schedule KWSC Sewer 7 and CA SOP, Exhibit CA-S-103.

²⁷³KWSC SOP, Exhibit A, Schedule KWSC Sewer 7 and CA SOP, Exhibit CA-S-103.

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these amounts are reasonable, and thus approves the Test Year averages for ADIT as listed above.

7.

Unamortized Hawaii Capital Goods Excise Tax Credit

As previously explained by the commission:

The HSCGETC [Hawaii State Capital Goods Excise Tax Credit] is the tax credit authorized for purchases related to the acquisition or construction of capital goods in the State. "Similar to ADIT, the tax benefits associated with HSCGETC must be returned to a regulated utility company's customers. Thus, similar to ADIT, the accumulated balance of HSCGETC is reflected as an offset to rate base."²⁷⁴

In the Partial Stipulation, the Parties stated that they were not able to reach an agreement regarding the determination of the Hawaii Capital Goods Excise Tax Credit ("HCGETC").²⁷⁵ However, in their respective Statement of Position on Outstanding Issues, their attached exhibits reflect an agreement on the KWSC's HCGETC average for the Test Year:

²⁷⁴Order No. 24085 at 39 (citing Docket No. 2006-0396, Decision and Order No. 23714 at 52).

²⁷⁵Partial Stipulation at 50.

	Test Year Average Unamortized Hawaii Capital Goods Excise Tax Credit
Water Operations	(\$366,890) ²⁷⁶
Sewer Operations	(\$236,680) ²⁷⁷
Total	(\$603,570)

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these amounts are reasonable, and thus approves the Test Year averages for HCGETC as listed above.

8.

Makalei Property Capacity

KWSC, as part of the responsibilities it assumed as a result of acquiring KUC, has reserved up to 627,000 gpd for the Makalei Property.²⁷⁸ This is considered committed capacity, and KWSC has proposed to continue making an adjustment to its rate

²⁷⁶KWSC SOP, Exhibit A, Schedule KWSC Water 7 and CA SOP, Exhibit CA-W-103 (the commission notes that there is a discrepancy of \$1 between the Consumer Advocate's exhibit and KWSC's exhibit; however, the commission finds this amount to be negligible).

²⁷⁷KWSC SOP, Exhibit A, Schedule KWSC Sewer 7 and CA SOP, Exhibit CA-S-103 (the commission notes that there is a discrepancy of \$1 between the Consumer Advocate's exhibit and KWSC's exhibit; however, the commission finds this amount to be negligible).

²⁷⁸Partial Stipulation at 46.

base to account for this capacity in this proceeding.²⁷⁹ As discussed above, since KUC's last rate case, KWSC has learned that the committed capacity adjustment for the Makalei Property should be decreased to account for errors that were incorporated in KUC's last rate case, Docket No. 2007-0198. Based on the corrected amount, the Parties agreed to a committed capacity adjustment of (\$335,116) for the Makalei Property.²⁸⁰

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that this adjustment and amount are reasonable, and thus approves the Parties' stipulated committed capacity adjustment of (\$335,116) for the Makalei Property.

9.

Other Committed Capacity

Aside from the Makalei Property, in KUC's last rate case (Docket No. 2007-0198) committed capacity was also removed for "Other" properties, including 9,000 gpd for the WHVC, 18,000 gpd for the Robarts Property, and 15,000 gpd for the Stroud Property.²⁸¹

²⁷⁹Partial Stipulation at 46.

²⁸⁰Partial Stipulation at 46-47.

²⁸¹Application, Exhibit KWSC-T-600 at 9.

The Parties agreed that: (a) no adjustment should be made for the committed capacity to the WHVC; and (b) a capacity adjustment of (\$60,000) should be made for the Robarts Property.²⁸²

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the Parties' stipulations with respect to these two adjustments are reasonable, and approves the Parties' stipulated committed capacity adjustment of (\$60,000) for the Robarts Property.

The adjustment relating to the Stroud Property is discussed, supra.

10.

Excess Capacity

As discussed supra, the commission disagrees with the Consumer Advocate's methodology for calculating excess capacity in KWSC's water operations, and concludes that an adjustment for excess capacity is not appropriate here.

²⁸²Partial Stipulation at 48.

11.

True-Up Adjustment

As discussed above, the commission finds that a true-up adjustment is justified under the circumstances in order to avoid a negative impact to ratepayers. As stated, supra, a true-up adjustment of (\$1,846,572) will be applied to KWSC's combined water and sewer operations, consisting of an adjustment of (\$1,052,368) for water operations and (\$794,204) for sewer operations.

12.

Working Capital

Working cash (i.e., working capital) represents "the amount of money provided by investors, over and above the investment in plant and other specifically identified rate base items, in order for [KWSC] to meet current obligations incurred in providing service pending receipt of revenues from those services. [KWSC] is entitled to receive a return on such advances."²⁸³

²⁸³Order No. 24085 at 40 (citing Docket No. 96-0366, Decision and Order No. 16372, at 12).

The Parties agreed to Test Year average working capital as follows:²⁸⁴

	Test Year average Working Capital
Water Operations	\$213,011
Sewer Operations	\$72,013
Total	\$285,024

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that these stipulated amounts are reasonable, and thus approves the Parties' stipulated working capital for the Test Year.

13.

Average Rate Base Balance

Based on the above, the commission concludes that a reasonable Test Year average rate base for KWSC's water and sewer operations is as follows:

²⁸⁴Partial Stipulation at 51.

Water Operations

Description	Balance
Plant-in-service	\$20,115,573
Accumulated depreciation	(\$5,980,770)
Net plant-in-service	\$14,134,803
Net CIAC	(\$4,368,561)
ADIT (federal)	(\$1,360,514)
ADIT (state)	(\$213,507)
Unamortized HCGETC	(\$366,890)
Makalei capacity	(\$335,116)
Other capacity (Robarts Property)	(\$60,000)
Other capacity (Stroud Property)	(\$49,739)
True-up adjustment	(\$1,052,368)
Subtotal	(\$7,806,695)
Working capital	\$213,011
subtotal	\$213,011
Total	\$6,541,118

Sewer Operations

Description	Balance
Plant-in-service	\$15,824,205
Accumulated depreciation	(\$3,719,304)
Net plant-in-service	\$12,104,901
Net CIAC	(\$5,893,182)
ADIT (federal)	(\$166,418)
ADIT (state)	(\$154,861)
Unamortized HCGETC	(\$236,680)
True-up adjustment	(\$794,204)
Subtotal	(\$7,245,345)
Working capital	(\$72,013)
subtotal	(\$72,013)
Total	\$4,931,569

Combined Operations

Description	Balance
Plant-in-service	\$35,939,777
Accumulated depreciation	(\$9,700,074)
Net plant-in-service	\$26,239,703
Net CIAC	(\$10,261,743)
ADIT (federal)	(\$1,526,932)
ADIT (state)	(\$368,368)
Unamortized HCGETC	(\$603,570)
Makalei capacity	(\$335,116)
Other capacity (Robarts Property)	(\$60,000)
Other capacity (Stroud Property)	(\$49,739)
True-up adjustment	(1,846,572)
Subtotal	(\$15,052,040)
Working capital	\$285,024
subtotal	\$285,024
Total	\$11,472,687

H.

Rate of Return

As discussed by the Hawaii Supreme Court in In re Hawaii Elec. Light Co., Inc., 60 Haw. 625, 594 P.2d 612 (1979)

("In re HELCO") :

A fair return is the percentage rate of earnings on the rate base allowed a utility after making provision for operating expenses, depreciation, taxes and other direct operating costs. Out of such allowance the utility must pay interest and other fixed dividends on preferred and common stock. In determining a rate of return, the Commission must protect the interests of a utility's investors so as to induce them to provide the funds needed to purchase plant and equipment, and protect the interest of the utility's consumers so that they pay no more than is reasonable.

To calculate the rate of return, the costs of each component of capital - debt, preferred equity and common equity - are weighted according to the ratio each bears to the total capital structure of the company and the resultant figures are added together to yield a sum which is the rate of return.

The proper return to be accorded common equity is the most difficult and least exact calculation in the whole rate of return procedure since there is no contractual cost as in the case of debt or preferred stock[:]

Equity capital does not always pay dividends; all profits after fixed charges accrue to it and it must withstand all losses. The cost of such capital cannot be read or computed directly from the company's books. Its determination involves a judgment of what return on equity is necessary to enable the

utility to attract enough equity capital to satisfy its service obligations.

Questions concerning a fair rate of return are particularly vexing as the reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion by the Commission. It is often recognized that the ratemaking function involves the making of "pragmatic" adjustments and there is no single correct rate of return but that there is a "zone of reasonableness" within which the commission may exercise its judgment.

In re HELCO, 60 Haw. at 632-33 and 636, 594 P.2d at 618-20 (citations omitted).

The Parties agreed that a rate of return of 7.75% is fair, based on the following capital structure and cost rates:²⁸⁵

Water Operations

Capital Component	Amount	Ratio	Effective Rate	Rate of Return
Long-term debt	\$3,592,316	47.0%	5.10%	2.40%
Common stock	\$4,050,909	53.0%	10.10%	5.35%
	\$7,643,225	100.0%		7.75%

²⁸⁵Partial Stipulation at 55 and Exhibit A, Exhibits KWSC Water 10 (Settlement) and KWSC Sewer 10 (Settlement).

Sewer Operations

Capital Component	Amount	Ratio	Effective Rate	Rate of Return
Long-term debt	\$2,691,113	47.0%	5.10%	2.40%
Common stock	\$3,034,659	53.0%	10.10%	5.35%
	\$5,725,772	100.0%		7.75%

The Parties noted that this is the same rate of return as approved by the commission for WHUC in Docket No. 2011-0331.²⁸⁶

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the stipulated rate of return of 7.75% is reasonable, and thus approves it as fair.

I.

Test Year Revenue Requirement

Based on the commission's findings with respect to KWSC's Test Year revenues and expenses at present rates, average rate base balance, and rate of return, the commission ultimately approves as reasonable an increase in revenues of \$2,101,024, or approximately 58.83% over revenues at present rates for KWSC, based on a Test Year revenue requirement of \$5,672,618 (consolidated operations).

²⁸⁶Partial Stipulation at 55; see also, Order No. 32107 at 108-112.

In sum:²⁸⁷

Operations	Present Rates	Additional Amount	Approved Rates	Percentage Change
Water	\$1,622,546	\$674,050	\$2,296,596	
PCAF ²⁸⁸	\$1,042,603	(\$1,042,603)	\$0	
PCC ²⁸⁹	\$0	\$1,590,105 ²⁹⁰	\$1,590,105	
Total	\$2,665,149	\$1,221,552	\$3,886,701	45.83%
Sewer	\$840,535	\$772,900	\$1,613,435	
PCAF	\$65,910	(\$65,910)	\$0	
PCC	\$0	\$172,482 ²⁹¹	\$172,482	
Total	\$906,445	\$879,472	\$1,785,917	97.02%
Combined	\$2,463,081	\$1,446,950	\$3,910,031	
PCAF	\$1,108,513	(\$1,108,513)	\$0	
PCC	\$0	\$1,762,587	\$1,762,587	
Total	\$3,571,594	\$2,101,024	\$5,672,618	58.83%

²⁸⁷See Exhibits A through C attached to this Order.

²⁸⁸As noted, supra, the Parties have submitted exhibits that reflect agreement over the amount of the PCAF for KWSC's water and sewer operations. See KWSC SOP at Exhibit A, Schedules KWSC Water 6.1 and Sewer 6.1, and CA SOP at Exhibits CA-W-101 and CA-S-101.

²⁸⁹As discussed, infra, in this proceeding, KWSC is proposing to replace the PCAF with a PCC.

²⁹⁰The Parties have submitted exhibits that reflect a general agreement concerning the amount of the proposed PCC for KWSC's water operations. See KWSC SOP at Exhibit A, Schedule KWSC Water 6.1 and CA SOP at Exhibit CA-W-101. The commission notes that there is a \$32 difference between KWSC's PCC and the CA's PCC. Id. The commission adopts KWSC's PCC figure for purposes of its calculations, but finds that the discrepancy is negligible (i.e., \$32 out of a \$1.5 million) and does not affect the overall revenue requirement calculations in a meaningful or detrimental way.

²⁹¹The Parties have submitted exhibits that reflect agreement concerning the amount of the PCC for KWSC's sewer operations. See KWSC SOP at Exhibit A, Schedule KWSC Sewer 6.1 and CA SOP at Exhibit CA-S-101.

J.

Rate Design

The Consumer Advocate noted that KWSC did not propose a change in its rate design in its Application, and expressed concern that the current rate design may be outdated.²⁹² Furthermore, the Consumer Advocate noted that some KWSC customers may be drilling their own wells for irrigation water, thereby causing customers without wells to unfairly pay more for utility services.²⁹³ In order to address these concerns, KWSC, along with the Kukio Entities, retained Robert O'Brien to perform a cost of service ("COS") analysis and propose a rate design for KWSC's water and sewer operations.²⁹⁴

The COS analysis for each utility operation shows that the existing rate design does not reflect the cost of providing service, and further shows that the fixed charges should be increased substantially in order to allow KWSC to recover the cost of providing service and to reduce the incentive for customers to drill wells or take other actions that shift the revenue

²⁹²CA SOP at 24.

²⁹³CA SOP at 24.

²⁹⁴KWSC SOP at 25. The Parties acknowledge that the COS analysis by Mr. O'Brien reflects a "high-level" review for purposes of this proceeding. CA SOP at 26. The Parties have stipulated that KWSC will conduct a complete COS analysis before filing its next rate case. Id.; see also, Partial Stipulation at 61.

requirement attributable to them to other customers.²⁹⁵ The COS analysis reflects that there are currently 23 customer-owned wells drilled in KWSC's service area, plus an additional 10 active permits to drill wells.²⁹⁶

The COS analysis provides alternate rate design scenarios for KWSC's water and sewer operations based on the Parties' respective positions regarding KWSC's revenue requirement; however, the methodology and procedures used in each presentation are the same.²⁹⁷ The rate design for water operations consists of the following components: (1) customer charge; (2) ready-to-serve charge; (3) power cost charge; (4) usage charge; and (5) bulk sales charge.²⁹⁸ These charges, in turn, are used to recover KWSC's water operations revenue requirement in the form of fixed charges, variable charges, and customer charges.²⁹⁹

²⁹⁵KWSC SOP, Exhibit B at 1 of the Study (Exhibit B is comprised of a 3-page introductory section and the main body of the COS analysis. To avoid confusion regarding page numbers, the cited page numbers will be followed by a designation indicating whether the page number relates to the "Introduction" or "Study" section of Exhibit B).

²⁹⁶KWSC SOP, Exhibit B at 1 of the Study.

²⁹⁷See KWSC SOP, Exhibit B at 2 and 5 of the Study.

²⁹⁸KWSC SOP, Exhibit B at 3 of the Study.

²⁹⁹See, KWSC SOP, Exhibit B at Exhibit KWSC Water-COS-RD page 2 of 4.

The rate design for sewer operations consists of the following components: (1) customer and ready-to-serve ("fixed charge"); (2) power cost charge; and (3) usage charge.³⁰⁰ These charges, in turn, are used to recover KWSC's sewer operations revenue requirement, in the form of fixed charges, variable charges, and customer charges.³⁰¹

The Parties agreed to adopt the COS analysis rate design for the purposes of this proceeding.³⁰² The Kukio Entities have also indicated their support for the COS analysis rate design.³⁰³ The proposed rate design is based on the COS analysis findings that show that a significant portion of KWSC's costs are fixed and the existing rate design recovers almost all revenue from volume usage charges.³⁰⁴ Under the proposed rate design, KWSC will recover more of its revenue requirements through its fixed monthly charges and less through its usage charges.³⁰⁵

³⁰⁰KWSC SOP, Exhibit B at 6 of the Study.

³⁰¹See, KWSC SOP, Exhibit B at Exhibit KWSC Sewer-COS-RD page 2 of 4.

³⁰²See KWSC SOP at 25 and CA SOP at 27. See also, KWSC SOP, Exhibit B at 3 of the Introduction.

³⁰³CA SOP, Attachment 5.

³⁰⁴KWSC SOP, Exhibit B at 9 of the Study.

³⁰⁵KWSC SOP, Exhibit B at 9-10 of the Study.

The Parties agreed that the proposed rate increase will be introduced in two phases, six months apart.³⁰⁶ The Parties further agreed that 75% of the approved increase in revenue will be included in the first phase, and the remainder will be included in the second phase.³⁰⁷ Additionally, the Consumer Advocate has recommended that the COS analysis rate design be phased-in as well, using two steps over a six-month period.³⁰⁸

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the Parties' stipulation to implement a two-step phase-in of the rate increase is reasonable. The commission further concludes that it is reasonable to redesign the rates now, i.e., sooner, rather than later, in order to address the imbalance currently affecting KWSC's present rate design.

For example, the commission notes that under the Consumer Advocate's proposed phase-in of the rate design, as compared to an immediate application of the new rate design, both the increase to fixed charges and decrease to usage charges

³⁰⁶Partial Stipulation at 62 (water operations) and 63 (sewer operations).

³⁰⁷Partial Stipulation at 62 (water operations) and 63 (sewer operations).

³⁰⁸CA SOP at 27.

are lessened.³⁰⁹ The COS analysis concludes that the current rate design (which has been in place since 2007, when KUC filed its last rate case) inequitably shifts a significant portion of KWSC's costs to the usage charges, which has provided an opportunity for well-owning customers to avoid paying their fair share of the cost of KWSC's services. For these reasons, the commission concludes that a correction to this imbalance should be implemented as soon as possible.

Finally, the commission observes that KWSC's rate design may be further refined in KWSC's next rate proceeding, based on the more complete COS study that KWSC has agreed to perform.³¹⁰ Thus, the commission denies the Consumer Advocate's request to phase-in the new rate design.

The commission's conclusions in this Order result in the need for the Parties to re-calculate the rates and charges for KWSC. While the Parties have stipulated to the methodology applied in the COS analysis, the alternative rates presented in the COS analysis were based on KWSC's and the Consumer Advocate's respective proposed increases in revenue over present rates.

³⁰⁹KWSC, Exhibit B at 11 (water operations) and 15 (sewer operations) of the Study.

³¹⁰See Partial Stipulation at 61.

As a result of the commission's findings concerning the Outstanding Issues, none of the COS analysis' projected rates are applicable.

Accordingly, the commission instructs the Parties to recalculate and refile the proposed rates and charges for KWSC's water and sewer operations, including calculations for KWSC's combined operations, consistent with the findings in this Order. The recalculated rates and charges submitted by the Parties should incorporate: (1) a two-step phase-in of the revenue increase for water and sewer operations, with 75% of the approved increase in revenue included in the first phase, and the remainder included in the second phase; and (2) immediate application of the revised rate design.

Finally, pursuant to the Partial Stipulation, the commission directs KWSC to perform a complete cost of service study prior to filing its next rate case and to utilize and file said cost of service study in its next rate case application.

K.

Proposed Tariff Changes

The Parties stipulated to certain revision to KWSC's existing tariff rules. Specifically, the Parties stipulated to changes to: (1) Tariff Rule III, section 5 (Conservation Measures and Interruption of Service); (2) Tariff Rule XI (Contribution in Aid of Construction Fee - Facilities Charges); (3) Tariff Rule XII

(System Extensions); and (4) the existing PCAF by replacing it with a PCC. KWSC stated that it acquired its present tariff terms as part of its acquisition of KUC, and desires to amend the conservation, CIAC, and system extension rules so that they are substantially the same as HWSC's other water and wastewater systems.³¹¹

1.

Conservation

The Parties stipulated to a revision of Rule III, section 5, of KWSC's tariff that would allow KWSC to require the developer of a new development to record a declaration of covenants against the property to be served that contains conservation measures and water usage restrictions.³¹² KWSC stated that it believes that this will help conserve water.³¹³

³¹¹Application, Exhibit KWSC-T-600 at 2. The commission notes that similar tariff revisions were approved for HWSC's: Ka'anapali Water Division (Decision and Order No. 30103, filed January 11, 2012, in Docket No. 2009-0310, at 5-662); West Hawaii Utility Company (Decision and Order No. 32107, filed May 23, 2014, in Docket No. 2011-0331, at 129-136); West Hawaii Sewer Company (Decision and Order No. 32926, filed June 22, 2015, in Docket No. 2012-0147, at 77-82); and West Hawaii Water Company (Decision and Order No. 32685, filed February 19, 2015, in Docket No. 2012-0148, at 76-80).

³¹²Partial Stipulation at 55; see also, KWSC Response to PUC-IR-1, filed June 4, 2015.

³¹³Application, Exhibit KWSC-T-600 at 3.

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the stipulated revision to Rule III, section 5, of KWSC's Tariff is reasonable.

2.

CIAC

The Parties stipulated to a number of changes to KWSC's CIAC Tariff.³¹⁴ These changes are intended to standardize the CIAC provisions of all of the HWSC operating divisions.³¹⁵

First, the Parties agreed to revise the formula for calculating CIAC. KWSC's existing tariff contains a formula for determining a developer's fair share of the cost of improvements required to service a project.³¹⁶ The Parties agreed to replace this with a new formula where the CIAC will be based on a plant cost that is not less than the average of the most recent two phases of plant capacity.³¹⁷ This revision addresses a concern that surfaced in WHSC's last rate case, where the parties noted that the cost of different phases of both of WHSC's new wastewater treatment plants

³¹⁴Partial Stipulation at 56; see also, KWSC Response to PUC-IR-2, filed June 4, 2015.

³¹⁵Partial Stipulation at 56.

³¹⁶Partial Stipulation at 56; see also, Application, Exhibit KWSC-T-601

³¹⁷Partial Stipulation at 56.

varied greatly.³¹⁸ Additionally, in order to address potential concerns about "over-collection" of CIAC, the Parties further agreed to add a provision stating that if KWSC collects a greater amount of CIAC than the total cost of all phases, then the cost of the next phase would be reduced by a net unamortized over-collection in calculating the CIAC to be paid by a developer to be serviced by the next phase.³¹⁹ This revision is only applicable to CIAC for sewer operations, and not to water operations.³²⁰

Second, the Parties stipulated to adding section 6(d) to Rule XI, which would allow for a true-up between an applicant and KWSC where CIAC is based on estimated costs.³²¹ In those cases, the CIAC payment would be based on KWSC's estimate; however, following completion of construction, KWSC would provide the applicant with a statement of the actual costs and a recalculation of the CIAC.³²² Any difference between the originally calculated

³¹⁸Partial Stipulation at 56. Under the current formula, the amount paid by a developer using one phase of the new WHSC plant would be much greater than a developer using another phase. Application, Exhibit KWSC-T-600 at 4.

³¹⁹Partial Stipulation at 56.

³²⁰Partial Stipulation at 57. This is because water system facilities are generally not constructed in phases in the same manner as wastewater treatment plants. Id.

³²¹Partial Stipulation at 57.

³²²Partial Stipulation at 57.

CIAC and the recalculated CIAC would be paid by KWSC or the applicant, as applicable.³²³ KWSC stated that this revision is consistent with its belief that it should not make or lose money on CIAC.³²⁴

Third, the Parties stipulated to adding a new section 15 to Rule XI that would allow an applicant, at KWSC's option, to install facilities required to serve such applicant pursuant to KWSC's "System Extension" rules in lieu of paying CIAC.³²⁵ Under the new rule, KWSC may also require an applicant to install and construct special facilities required to serve the applicant in addition to paying CIAC to the extent that the cost of such facilities is not included in the CIAC.³²⁶ KWSC states that this revision is intended to provide it with flexibility to require a developer to pay for facilities required to serve a development through a combination of CIAC charges and/or contributions to or construction of facilities.³²⁷

Fourth, the Parties stipulated to the addition of a provision to Section 8 of Rule XI that requires a customer to pay

³²³Partial Stipulation at 57.

³²⁴Application, Exhibit KWSC-T-600 at 5.

³²⁵Partial Stipulation at 57.

³²⁶Partial Stipulation at 57.

³²⁷Partial Stipulation at 57.

additional CIAC if the customer's usage exceeds the water usage on which the original CIAC payment was based by a specified amount.³²⁸

Fifth, the Parties stipulated to a number of miscellaneous tariff revisions that are intended to address some problems that have arisen in the past with respect to KWSC's affiliates, including:

1. Revising the process used by KSWC in agreeing to serve new developments. Under this revision, KWSC would provide the applicant with preliminary, conditional commitment to provide service, in order to assist the applicant in obtaining land use approvals or financing.³²⁹ However, KWSC would not be bound to provide service until the applicant has signed an Extension Agreement, fully paid the CIAC within an allotted time (generally, one year), and constructed or contributed to the cost of any special facilities that are required to serve the applicant that are not paid for with the CIAC, in accordance with Rule XII.³³⁰ If the applicant fails to comply with any of these conditions,

³²⁸Partial Stipulation at 58. As noted by commission in Order No. 32107, approving the same revision to WHUC's tariff, this provision: "(A) is intended to encourage water conservation; and (B) 'allows WHUC to initially assess CIAC based on a lower estimate of water usage, and assess additional CIAC if usage exceeds the original estimate.'" Order No. 32107 at 132 (footnote omitted).

³²⁹Partial Stipulation at 58.

³³⁰Partial Stipulation at 58; see also, Application, Exhibit KWS-T-600 at 6.

KWSC's obligation to provide service would automatically terminate.³³¹ These revisions would be made to Rule XI, sections 9 and 11.³³² The intent is to prevent developers from tying up capacity that may be required for other projects.³³³

2. Revising Rule XI, section 12, to include a time limit of one year, unless otherwise agreed in the Extension Agreement.³³⁴ Under the revised section 12 to Rule XI, if the Extension Agreement is terminated, KWSC may make any capacity reserved for the developer available to others and require the developer to pay any increased construction costs at the time that developer requests service in the future.³³⁵ In addition, KWSC would reimburse the applicant for CIAC payments that were either not used or for which KWSC has received alternative funding from another applicant who will utilize the originally reserved capacity.³³⁶ This would allow KWSC to make unused capacity

³³¹Partial Stipulation at 58.

³³²Partial Stipulation at 58.

³³³Partial Stipulation at 58.

³³⁴Partial Stipulation at 58; see also, Application, Exhibit KWSC-T-600 at 7.

³³⁵Application, Exhibit KWSC-T-600 at 7.

³³⁶Application, Exhibit KWSC-T-600 at 7.

available to other users, and assure that the developer pays for the actual cost of facilities required to serve the development.³³⁷

3. Revising Rule XI, section 16, by adding grandfather provisions. These revisions include: (1) exempting will-serve agreements signed prior to the effective date of the new rule from the new termination provisions; and (2) exempting applicants who have entered into will-serve agreements before the effective date of the new rule from the new CIAC formula, except to the extent that the will-serve agreement is consistent with the revised CIAC provisions.³³⁸ However, if the will-serve agreement provides that final payment will be dependent on the rate in effect at the time such final payment is made, the total CIAC payable will be calculated in accordance with the new rule.³³⁹

Based on its review of the entire record, as well as the Partial Stipulation, the commission concludes that the stipulated revisions to Rule XI of KWSC's Tariff are just and reasonable.

³³⁷Partial Stipulation at 58-59.

³³⁸Application, Exhibit KWSC-T-600 at 8.

³³⁹Application, Exhibit KWSC-T-600 at 8.

System Extension Rules

Currently, Rule XII of KWSC's tariff allows KWSC to require an applicant to pay for extensions of water and sewer mains required to provide service to the applicant through refundable or non-refundable contributions.³⁴⁰ The Parties stipulated to a revision to Rule XII³⁴¹ that would broaden the types of facilities that may be subject to the System Extension Rules to include any facilities that are required to serve the applicant.³⁴²

The commission approves this stipulated revision to Rule XII of KWSC's tariff as just and reasonable.

³⁴⁰Application, Exhibit KWSC-T-600 at 8.

³⁴¹The Partial Stipulation states: "KWSC proposes to broaden the types of facilities that may be subject to the System Extension Rules contained in Rule XXII of its tariff" Partial Stipulation at 59 (citing KWSC-T-600 at 8-9). The commission notes that Exhibit KWSC-T-600 pages 8-9 do not contain any reference to "Rule XXII," and instead refer to "Rule XII." The commission assumes that the reference to "Rule XXII" is a typographical error and that the Parties intended to refer to "Rule XII" instead.

³⁴²Partial Stipulation at 59 and Application, Exhibit KWSC-T-600 at 8-9.

Power Cost Charge

KWSC's tariff currently includes a PCAF that is based on the following formula:³⁴³

$$[(\text{Current monthly electricity cost} / \text{Current month total metered TG}) - \$2.7483] \times \$1.068205$$

In the Partial Stipulation, the Parties agreed to replace the PCAF with a PCC. According to KWSC, there has been customer confusion with respect to what the PCAF charge represents.³⁴⁴ The PCAF captures the difference between the current cost of power and the cost that was included in rates in the previous general rate case. However, because of the ways the requested increase in rates has sometimes been stated, there was a misconception by some customers regarding the effect of the requested rate increases.³⁴⁵ Additionally, many customers were confused as to why the PCAF charge did not represent the entire cost for electricity.³⁴⁶

The PCC is designed to include all electricity costs, and would be shown as a separate line item on the customer's

³⁴³Partial Stipulation at 59.

³⁴⁴Application, Exhibit KWSC-T-100 at 11.

³⁴⁵Application, Exhibit KWSC-T-100 at 11.

³⁴⁶Application, Exhibit KWSC-T-100 at 11.

bill.³⁴⁷ The result is that all electric costs will be removed from operating costs for purposes of determining the monthly meter charges and consumption charges.³⁴⁸

The Parties agreed to the following PCC formula for water operations:

Electric Power Cost per thousand gallons =
Actual cost per kWh x (18.71 kWh/thousand gallons) x 1.06385³⁴⁹

Additionally, the Parties agreed that KWSC will file monthly reports with the commission and Consumer Advocate showing the calculation of the PCC that will be billed to customers in the following month, and, further, that these reports will be posted on HWSC's website.³⁵⁰

The commission approves this stipulated revision as just and reasonable.

³⁴⁷Partial Stipulation at 60.

³⁴⁸Partial Stipulation at 60.

³⁴⁹Partial Stipulation at 60.

³⁵⁰Partial Stipulation at 60-61. As noted above, KWSC is a subsidiary of HWSC.

III.

Summary of Findings and Conclusions

1. KWSC's Test Year operating revenues, expenses, and average rate base balance, as set forth in the schedules attached to this Order, are reasonable.

2. The stipulated rate of return of 7.75% is fair.

3. KWSC has adequately demonstrated why an excess capacity adjustment to its rate base is not appropriate in this proceeding.

4. KWSC has not adequately demonstrated why a committed capacity adjustment for the Stroud Property should not be made to its rate base.

5. The commission concludes that a true-up adjustment to KWSC's rate base is necessary to avoid an inequitable negative impact to ratepayers. The true-up adjustment will be amortized over the remaining life of the assets.

6. KWSC is entitled to an increase in revenues of \$2,101,024 or approximately 58.83%, over revenues at present rates, based on a total Test Year revenue requirement of \$5,672,618.

7. The methodologies presented in the Cost of Service Study and Rate Design submitted by KWSC, and agreed to by the Consumer Advocate, are reasonable, and the Parties are instructed to submit recalculated rates and charges applying

these methodologies to the commission's approved revenue requirement. The recalculated rates and charges shall incorporate a phase-in of KWSC's rate increase, but not of the revised rate design, which shall be incorporated immediately.

8. KWSC is directed to perform a complete cost of service study prior to filings it next rate application and to incorporate said study therein.

9. The Parties' agreed-upon revisions to Tariff Rules III, XI, and XII are just and reasonable.

10. The replacement of the existing Power Cost Adjustment Factor with a Power Cost Charge is just and reasonable, subject to the reporting requirements set forth in this Order.

11. The commission's issuance of this Order renders the issuance of an interim decision and order pursuant to HRS § 269-16(d) by June 29, 2015, moot.

IV.

Orders

THE COMMISSION ORDERS:

1. The Parties' Partial Stipulation, filed May 4, 2015, is approved, consistent with the terms of this Order.

2. The commission's approval of the Partial Stipulation, including the methodologies used by the Parties

therein, may not be cited as precedent by any parties in any pending or future commission proceeding.

3. KWSC may increase its utility rates and charges to produce an increase in revenues of \$2,101,024, or approximately 58.83%, over revenues at present rates, based on a total Test Year revenue requirement of \$5,672,618 (combined operations).

4. Within fifteen (15) days of the date of this Order, the Parties shall re-calculate and re-file the rates and charges consistent with the terms of this Order. This filing shall include supporting information to demonstrate compliance with the Cost of Service study and Rate Design methodology agreed to by the Parties in calculating the rates and charges. KWSC is precluded from increasing its utility rates and charges until such rates and charges are affirmatively approved by a commission order.

5. The use of a power cost charge is approved. KWSC shall file a monthly power cost charge report with the commission and Consumer Advocate, which outlines the calculations of the respective power cost charges that will be billed to its customers in the following month. KWSC will also post these reports on-line on KWSC's website. KWSC's monthly report shall be due by the 15th of the month during which the respective power cost charges are in effect.

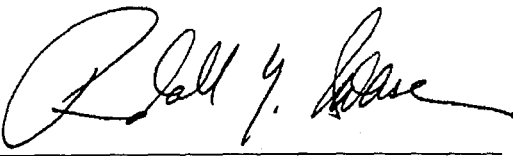
6. Prior to its next rate case proceeding, KWSC shall conduct a more complete cost-of-service study, which shall be incorporated as part of its next rate case application.

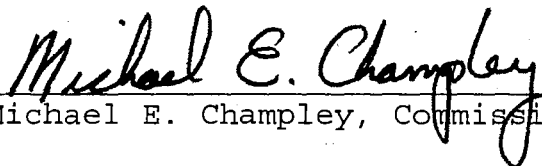
7. KWSC shall serve copies of the filings referenced in Ordering Paragraphs Nos. 4 and 5, above, upon the Consumer Advocate.

8. Failure to comply with any of the requirements set forth in the above Ordering Paragraphs above may constitute cause to void this Order, and may result in further regulatory action as authorized by State law.

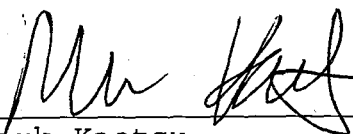
DONE at Honolulu, Hawaii JUN 29 2015.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Randall Y. Iwase, Chair

By 
Michael E. Champley, Commissioner

APPROVED AS TO FORM:


Mark Kaetsu
Commission Counsel

By 
Lorraine H. Akiba, Commissioner

2013-0375.sr

Docket 2013-0375
Kona Water Service Company, Inc.
Consolidated Results of Operations
Test Year Ending June 30, 2015

Description	Present Rates	Additional Amount	Approved Rates at 7.75%
REVENUES			
Water and Sewer Operating Revenues	\$ 3,571,594	\$ 2,101,024	\$ 5,672,618
Total Operating Revenues	\$ 3,571,594	\$ 2,101,024	\$ 5,672,618
OPERATING EXPENSES			
Labor Expenses	\$ 1,151,806		\$ 1,151,806
Fuel & Power	1,722,761		1,722,761
Chemicals	94,877		94,877
Materials & Supplies	15,152		15,152
Waste/Sludge Disposal	2,846		2,846
Affiliated Charges	136,397		136,397
Professional and Outside Services	(27,023)		(27,023)
Repairs & Maintenance	139,770		139,770
Rental Expenses	21,937		21,937
Insurance Expenses	15,460		15,460
Regulatory Expenses	51,333		51,333
General & Administrative Expenses	85,481		85,481
Miscellaneous & Other Expenses	9,494		9,494
Round Off			
Total O&M Expenses	\$ 3,420,291	\$ -	\$ 3,420,291
Taxes, Other Than Income	\$ 228,047	\$ 134,150	\$ 362,197
Depreciation	642,995		642,995
Amortization	0		0
Income Taxes	(384,456)	742,404	357,948
Diff. due to changing factors			
Total Operating Expenses	\$ 3,906,877	\$ 876,554	\$ 4,783,431
Operating Income	\$ (335,283)	\$ 1,224,470	\$ 889,187
Average Rate Base	\$ 11,472,687	\$ -	\$ 11,472,687
Return on Rate Base	-2.92%		7.75%

Docket 2013-0375
Kona Water Service Company, Inc.
Consolidated Average Rate Base
Test Year Ending June 30, 2015

Description	At June 30, 2014	At June 30, 2015	Average
Plant in Service	\$ 35,661,730	\$ 36,217,825	\$ 35,939,779
Less: Accumulated Depreciation	(9,227,271)	(10,172,878)	(9,700,075)
<i>Net Plant-in Service</i>	<u>\$ 26,434,459</u>	<u>\$ 26,044,947</u>	<u>\$ 26,239,704</u>
Less: ()			
Net Contribution in Aid of Construction	\$ (10,395,515)	\$ (10,127,973)	\$ (10,261,744)
Customer Advances	0	0	0
Customer Deposits	0	0	0
Accumulated Deferred Taxes - Federal	(1,489,147)	(1,564,715)	(1,526,931)
Accumulated Deferred Taxes - State	(369,221)	(367,516)	(368,368)
Unamortized Hawaii General Excise Tax Credit	(613,758)	(593,383)	(603,571)
Makalei Capacity	(335,116)	(335,116)	(335,116)
Excess Capacity	0	0	0
Other Committed Capacity (Robarts Property)	(60,000)	(60,000)	(60,000)
Other Committed Capacity (Stroud Property)	(49,739)	(49,739)	(49,739)
True-Up Adjustment	(1,846,572)	(1,846,572)	(1,846,572)
<i>Subtotal</i>	<u>\$ (15,159,068)</u>	<u>\$ (14,945,014)</u>	<u>\$ (15,052,041)</u>
Add:			
Working Capital	285,024	285,024	285,024
Retirements			
<i>Subtotal</i>	<u>\$ 285,024</u>	<u>\$ 285,024</u>	<u>\$ 285,024</u>
Total Rate Base	<u>\$ 11,560,415</u>	<u>\$ 11,384,957</u>	
Average Rate Base at Approved Rate:			<u>\$ 11,472,687</u>

Docket 2013-0375
Kona Water Service Company, Inc. - Water Operations
Results of Operations
Test Year Ending June 30, 2015

Description	Present Rates	Additional Amount	Approved Rates at 7.75%
REVENUES			
Water Operating Revenues	\$ 2,665,149	\$ 1,221,552	\$ 3,886,701
Total Operating Revenues	\$ 2,665,149	\$ 1,221,552	\$ 3,886,701
OPERATING EXPENSES			
Labor Expenses	\$ 678,269		\$ 678,269
Fuel & Power	1,560,631		1,560,631
Chemicals	91,861		91,861
Materials & Supplies	0		0
Waste/Sludge Disposal	0		0
Affiliated Charges	85,511		85,511
Professional and Outside Services	(34,061)		(34,061)
Repairs & Maintenance	55,381		55,381
Rental Expenses	18,528		18,528
Insurance Expenses	8,808		8,808
Regulatory Expenses	32,910		32,910
General & Administrative Expenses	52,740		52,740
Miscellaneous & Other Expenses	5,554		5,554
Round Off			
Total O&M Expenses	\$ 2,556,132	\$ -	\$ 2,556,132
Taxes, Other Than Income	\$ 170,170	\$ 77,996	\$ 248,166
Depreciation	378,840		378,840
Amortization	0		0
Income Taxes	(233,647)	430,236	196,589
Diff. due to changing factors			
Total Operating Expenses	\$ 2,871,495	\$ 508,232	\$ 3,379,727
Operating Income	\$ (206,346)	\$ 713,320	\$ 506,974
Average Rate Base	\$ 6,541,118	\$ -	\$ 6,541,118
Return on Rate Base	-3.15%		7.75%

Docket 2013-0375
Kona Water Service Company, Inc. - Water Operations
Taxes Other Than Income Tax
Test Year Ending June 30, 2015

Description	Revenues at Present Rates	Revenues at Approved Rates	Tax Rates	Taxes at Present Rates	Taxes at Approved Rates
<u>Revenue Taxes</u>					
Public Company Service Tax (Pursuant to HRS Ch. 239)	\$ 2,665,149	\$ 3,886,701	5.885%	\$ 156,844	\$ 228,732
Public Utility Fee (Pursuant to HRS Ch. 269-30)	2,665,149	3,886,701	0.500%	13,326	19,434
Franchise Tax (applicable to electricity companies only) (Pursuant to HRS Ch. 240)			2.500%	-	-
Total Revenue Taxes				<u>\$ 170,170</u>	<u>\$ 248,166</u>
<u>Other Taxes</u>					
Other Taxes					
Total Other Taxes				<u>0</u>	<u>0</u>
Total Taxes Other Than Income Taxes				<u><u>\$ 170,170</u></u>	<u><u>\$ 248,166</u></u>

Docket 2013-0375
Kona Water Service Company, Inc. - Water Operations
Income Tax Expense
Test Year Ending June 30, 2015

Description	At Present Rates	At Approved Rates
Total Revenues	\$ 2,665,149	\$ 3,886,701
Total Operations & Maintenance Expenses	2,556,132	2,556,132
Depreciation	378,840	378,840
Amortization	0	0
Taxes Other than Income Taxes	170,170	248,166
Total Operating Expenses	<u>\$ 3,105,142</u>	<u>\$ 3,183,138</u>
Operating Income before Income Taxes	(439,993)	703,563
Interest Expenses	156,987	156,987
State Taxable Income	<u>\$ (596,980)</u>	<u>\$ 546,576</u>
State Income Tax		
25000 Less than \$25K	Tax Rates Less 4.2150% \$ 1,054	1,054
75000 Over \$25K, but less than \$100K	5.0945% 3,821	3,821
100000 Over \$100K	6.0150% (31,034)	26,862
Less HGET	(15,442)	(15,442)
State Income Tax	<u>\$ (46,476)</u>	<u>\$ 16,294</u>
Federal Taxable Income	\$ (550,504)	\$ 530,282
Federal Income Tax		
Less than \$50K	Tax Rates 15.00% -7,500	7,500
Over \$50K, but less than \$75K	25.00% -6,250	6,250
Over 75K, but less than \$100K	34.00% -8,500	8,500
Over \$100K, but less than \$335K	39.00% -91,650	91,650
Over \$335K	34.00% -73,271	66,396
Rounding		
Federal Income Tax	<u>\$ (187,171)</u>	<u>\$ 180,296</u>
Total Federal and State Income Taxes	<u>\$ (233,647)</u>	<u>\$ 196,589</u>
Effective Tax Rate	39.1382%	35.9676%
State	7.7851%	2.9811%
Federal	31.3531%	32.9864%

Docket 2013-0375
Kona Water Service Company, Inc. - Water Operations
Average Rate Base
Test Year Ending June 30, 2015

Description	At June 30, 2014	At June 30, 2015	Average
Plant in Service	\$ 19,994,965	\$ 20,236,179	\$ 20,115,573
Less: Accumulated Depreciation	(5,716,453)	(6,245,087)	(5,980,770)
<i>Net Plant-in Service</i>	<u>\$ 14,278,512</u>	<u>\$ 13,991,092</u>	<u>\$ 14,134,803</u>
Less: ()			
Net Contribution in Aid of Construction	\$ (4,425,924)	\$ (4,311,199)	\$ (4,368,561)
Customer Advances	0	0	0
Customer Deposits	0	0	0
Accumulated Deferred Taxes - Federal	(1,330,861)	(1,390,166)	(1,360,514)
Accumulated Deferred Taxes - State	(221,873)	(205,142)	(213,507)
Unamortized Hawaii General Excise Tax Credit	(373,086)	(360,694)	(366,890)
Makalei Capacity	(335,116)	(335,116)	(335,116)
Excess Capacity	0	0	0
Other Committed Capacity (Robarts Property)	(60,000)	(60,000)	(60,000)
Other Committed Capacity (Stroud Property)	(49,739)	(49,739)	(49,739)
True-Up Adjustment	(1,052,368)	(1,052,368)	(1,052,368)
<i>Subtotal</i>	<u>\$ (7,848,967)</u>	<u>\$ (7,764,424)</u>	<u>\$ (7,806,695)</u>
Add:			
Working Capital	213,011	213,011	213,011
Retirements			
<i>Subtotal</i>	<u>\$ 213,011</u>	<u>\$ 213,011</u>	<u>\$ 213,011</u>
Total Rate Base	<u>\$ 6,642,556</u>	<u>\$ 6,439,679</u>	
Average Rate Base at Approved Rate:			<u>\$ 6,541,118</u>

Docket 2013-0375
Kona Water Service Company, Inc. - Water Operations
Working Cash
Test Year Ending June 30, 2015

<u>Description</u>	<u>Amount</u>
Labor Expenses	\$ 678,269
Fuel & Power	1,560,631
Chemicals	91,861
Materials & Supplies	0
Waste/Sludge Disposal	0
Affiliated Charges	85,511
Professional and Outside Services	(34,061)
Repairs & Maintenance	55,381
Rental Expenses	18,528
Insurance Expenses	8,808
Regulatory Expenses	32,910
General & Administrative Expenses	52,740
Miscellaneous & Other Expenses	5,554
Subtotal	2,556,132
Working Cash Factor	<u>12</u>
Working Cash	<u><u>\$ 213,011</u></u>

Docket 2013-0375
Kona Water Service Company, Inc. - Sewer Operations
Results of Operations
Test Year Ending June 30, 2015

Description	Present Rates	Additional Amount	Approved Rates at 7.75%
<u>REVENUES</u>			
Sewer Operating Revenues	\$ 906,445	\$ 879,472	\$ 1,785,917
Total Operating Revenues	\$ 906,445	\$ 879,472	\$ 1,785,917
<u>OPERATING EXPENSES</u>			
Labor Expenses	\$ 473,537		\$ 473,537
Fuel & Power	162,130		162,130
Chemicals	3,016		3,016
Materials & Supplies	15,152		15,152
Waste/Sludge Disposal	2,846		2,846
Affiliated Charges	50,886		50,886
Professional and Outside Services	7,038		7,038
Repairs & Maintenance	84,389		84,389
Rental Expenses	3,409		3,409
Insurance Expenses	6,652		6,652
Regulatory Expenses	18,423		18,423
General & Administrative Expenses	32,741		32,741
Miscellaneous & Other Expenses	3,940		3,940
Total O&M Expenses	\$ 864,159	\$ -	\$ 864,159
Taxes, Other Than Income	\$ 57,877	\$ 56,154	\$ 114,031
Depreciation	264,155		264,155
Amortization	0		0
Income Taxes	(150,809)	312,168	161,359
Diff. due to changing factors			
Total Operating Expenses	\$ 1,035,381	\$ 368,322	\$ 1,403,704
Operating Income	\$ (128,936)	\$ 511,150	\$ 382,213
Average Rate Base	\$ 4,931,569	\$ -	\$ 4,931,569
Return on Rate Base	-2.61%		7.75%

Docket 2013-0375
Kona Water Service Company, Inc. - Sewer Operations
Taxes Other Than Income Taxes
Test Year Ending June 30, 2015

Description	Revenues at Present Rates	Revenues at Approved Rates	Tax Rates	Taxes at Present Rates	Taxes at Approved Rates
<u>Revenue Taxes</u>					
Public Company Service Tax (Pursuant to HRS Ch. 239)	\$ 906,445	\$ 1,785,917	5.885%	\$ 53,344	\$ 105,101
Public Utility Fee (Pursuant to HRS Ch. 269-30)	906,445	1,785,917	0.500%	4,532	8,930
Franchise Tax (applicable to electricity companies only) (Pursuant to HRS Ch. 240)			2.500%	-	-
Total Revenue Taxes				<u>\$ 57,877</u>	<u>\$ 114,031</u>
<u>Other Taxes</u>					
Other Taxes					
Total Other Taxes				<u>0</u>	<u>0</u>
Total Taxes Other Than Income Taxes				<u>\$ 57,877</u>	<u>\$ 114,031</u>

Docket 2013-0375
Kona Water Service Company, Inc. - Sewer Operations
Income Tax Expense
Test Year Ending June 30, 2015

Description	At Present Rates	At Approved Rates
Total Revenues	\$ 906,445	\$ 1,785,917
Total Operations & Maintenance Expenses	864,159	864,159
Depreciation	264,155	264,155
Amortization	0	0
Taxes Other than Income Taxes	57,877	114,031
Total Operating Expenses	<u>\$ 1,186,191</u>	<u>\$ 1,242,345</u>
Operating Income before Income Taxes	(279,746)	543,572
Interest Expenses	118,358	118,358
State Taxable Income	<u>\$ (398,104)</u>	<u>\$ 425,214</u>
State Income Tax		
	Tax Rates Less	
Less than \$25K	4.2150% \$ 1,054 (1,054)	1,054
Over \$25K, but less than \$100K	5.0945% 3,821 (3,821)	3,821
Over \$100K	<u>6.0150% 4,875 (17,931)</u>	19,562
State Income Tax	<u>\$ (22,805)</u>	<u>\$ 24,436</u>
Federal Taxable Income	\$ (375,299)	\$ 400,778
Federal Income Tax		
	Tax Rates	
Less than \$50K	15.00% (7,500)	7,500
Over \$50K, but less than \$75K	25.00% (6,250)	6,250
Over \$75K, but less than \$100K	34.00% (8,500)	8,500
Over \$100K, but less than \$335K	39.00% (91,650)	91,650
Over \$335K	<u>35.00% (14,105)</u>	23,022
Rounding		
Federal Income Tax	<u>\$ (128,004)</u>	<u>\$ 136,922</u>
Total Federal and State Income Taxes	<u>\$ (150,809)</u>	<u>\$ 161,359</u>
Effective Tax Rate	37.8817%	37.9476%
State	5.7283%	5.7468%
Federal	32.1534%	32.2008%

Docket 2013-0375
Kona Water Service Company, Inc. - Sewer Operations
Average Rate Base
Test Year Ending June 30, 2015

Description	At June 30, 2014	At June 30, 2015	Average
Plant in Service	\$ 15,666,765	\$ 15,981,646	\$ 15,824,205
Less: Accumulated Depreciation	(3,510,818)	(3,927,791)	(3,719,304)
<i>Net Plant-in Service</i>	<u>\$ 12,155,947</u>	<u>\$ 12,053,855</u>	<u>\$ 12,104,901</u>
Less: ()			
Net Contribution in Aid of Construction	\$ (5,969,591)	\$ (5,816,774)	\$ (5,893,182)
Customer Advances	0	0	0
Customer Deposits	0	0	0
Accumulated Deferred Taxes - Federal	(158,286)	(174,549)	(166,418)
Accumulated Deferred Taxes - State	(147,348)	(162,374)	(154,861)
Unamortized Hawaii General Excise Tax Credit	(240,672)	(232,689)	(236,680)
Makalei Capacity	0	0	0
Excess Capacity	0	0	0
Other Committed Capacity	0	0	0
True-Up Adjustment	(794,204)	(794,204)	(794,204)
<i>Subtotal</i>	<u>\$ (7,310,101)</u>	<u>\$ (7,180,590)</u>	<u>\$ (7,245,345)</u>
Add:			
Working Capital	72,013	72,013	72,013
Retirements			
<i>Subtotal</i>	<u>\$ 72,013</u>	<u>\$ 72,013</u>	<u>\$ 72,013</u>
Total Rate Base	<u>\$ 4,917,859</u>	<u>\$ 4,945,278</u>	
Average Rate Base at Approved Rate:			<u>\$ 4,931,569</u>

Docket 2013-0375
Kona Water Service Company, Inc. - Sewer Operations
Working Cash
Test Year Ending June 30, 2015

<u>Description</u>	<u>Amount</u>
Labor Expenses	\$ 473,537
Fuel & Power	162,130
Chemicals	3,016
Materials & Supplies	15,152
Waste/Sludge Disposal	2,846
Affiliated Charges	50,886
Professional and Outside Services	7,038
Repairs & Maintenance	84,389
Rental Expenses	3,409
Insurance Expenses	6,652
Regulatory Expenses	18,423
General & Administrative Expenses	32,741
Miscellaneous & Other Expenses	3,940
Subtotal	864,159
Working Cash Factor	<u>12</u>
Working Cash	<u><u>\$ 72,013</u></u>

CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail,
postage prepaid, and properly addressed to the following parties:

JEFFREY T. ONO
EXECUTIVE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, Hawaii 96809

J. DOUGLAS ING, ESQ.
PAMELA J. LARSON, ESQ.
DAVID Y. NAKASHIMA, ESQ.
WATANABE ING LLP
999 Bishop Street, 23rd Floor
Honolulu, Hawaii 96813

Counsel for KONA WATER SERVICE COMPANY, INC.